

Key Terms:

LME/CME

Commodification/De-Commodification

Readings:

Streek: The Crisis of Democratic Capitalism

Post war → Unions → Can't have wages and employment → Inflation → Unsustainable →

→ Raised interest rates → No more capital → No hiring → Unemployment/Stagnation →

→ Tax Aversion → Public Debt → Unsustainable → Private Debt (Houses) → Unsustainable

End Result: Debts now Public AND Private, nowhere left to pass the potato.

The new struggle is between Financial Institutions and States

States are vulnerable to interest rates, financial institutions are too big to fail, capital wins!

Esping-Anderson: The Three Worlds of Welfare Capitalism

Alternative to Class Mobilization Theory

It is true that democracy could lead to anti-market behavior, but socialists have never held a majority

Needed Coalitions

Thus the determinants of what type of system you end up with are:

Nature of Class Mobilization

Class Political Coalition Structures

Historical Legacy of Regime Institutionalism

And these things lead to:

Three Types of Welfare Systems:

The three worlds

	Benefit principle	Historical origins	Political base for <u>ws</u>	Effect on stratification
Social democratic	Universalism	Red-green coalitions	Everyone (low and middle)	Egalitarian
<u>Conservative</u>	Earnings-related	State-organized groups	Organized occupational groups	Status-preserving
Liberal	Needs-tested	Middle class dominance	The poor and social clients	Dualism/ high inequality

Commodification: Why is commodification a problem? Where is the push coming from?

People aren't commodities

They can't be withheld or they will find other means of subsistence

"It is possible to withhold a washing machine from the market until the price is agreeable; but labor is unable to withhold itself for long without recourse to alternative means of subsistence."

Commodities compete, this leads to a race to the bottom

In the end, the socialists changed their goals from full de-commodification to staving off poverty

They could never get the support of the:

Liberals, who thought that de-commodification would make people lazy

Conservatives, who were too meritocratic

But all of them supported a system of general rights *with* markets

Hall and Soskice: An Introduction to the Varieties of Capitalism

Firms are crucial actors, but they are subject to coordination problems:

Industrial Relations: Coordinate Bargaining over wages and conditions
Affects wages, unemployment, inflation

Vocational Training: What skills should workers acquire, incentives offered by firms

Corporate Governance: Bargaining over acquiring capital and assuring return on investments

Inter-Firm Relations: Maintaining suppliers, access to technology, etc

Own Employees: Workers develop skills, which can be bargained over, valuable

Liberal Market Economies:

Use hierarchies and competitive market arrangements to manage coordination

The *Invisible Hand* coordinates

LMEs must be profitable in order to obtain capital

Instead of accepting losses, they are more likely to lay off workers

Firms in LMEs are flexible in their assets and mobile with capital

Coordinated Market Economies:

Use non-market relationships

Coordination happens through cooperation and incomplete contracts

CMEs have access to capital due to coordination

Retain employment and accept losses

Firms in CMEs are likely to invest in specific assets as it's both safer, but also ordained?

Consider again the prisoner's dilemma from last week:

As a game: LMEs end up with rat-rat, CMEs end up with mum-mum!

Discuss: German and American Examples

They intend to look at how institutions relate to two kinds of innovation:

Radical Innovation: **LME**, can control costs, can dispense with labor if unsuccessful

Incremental Innovation: **CME**, good quality control, stable progress

DIFFERENT FIELDS OF PROGRESS DEMONSTRATE THIS

CME might resist the urge to move to new markets for cheap labor

LME more likely to move to cheap labor (though not always, especially when workers aren't commodified)

Iversen and Soskice – Distribution and Redistribution

Advanced Democracies cluster into 2 groups:

Weak WS and Inequality (Free Market)

Strong WS and Equality (Regulated Market)

2 factors

The electoral system: Proportional Representation

The degree of economic coordination: High

Coordinated Economies lead to equality and redistribution through 2 mechanisms:

1) CMEs invest in industry-, occupation-, or company-specific assets

This requires 3 things:

Wage protection (industry)

Employment Protection (individual)

Unemployment protection (insurance) ***This one is key!***

Protection of *wages* regardless of what job protects certain skills!

Thus organized business in CMEs DON'T WANT TO GET RID OF THE WELFARE STATE

They protect REDISTRIBUTION

LMEs could care less since labor is mobile

2) In CMEs, Unions bargain across industries, compacting wages

Thus, they protect DISTRIBUTION as well

PR leads to equality and redistribution through three mechanisms

1) PR leads to left of center gov

2) PR leads to higher education for low income groups

Left governments spend more on education than right, and more on poor

LMEs started off with agrarian economies, no strong guilds etc

No political incentive to represent groups

No PR

Majoritarian systems protected the middle class and the wealthy against the laborers

CMEs started off with pre-organized groups

Groups needed representation

PR

The laborers could form coalitions, affect policy, WS

Christian democratic parties were so distrustful of other right parties that they had to have PR

Discussion Questions:

1) Streek concludes that capital has won over democracy, and that it was inevitable. Should we give up on democracy? Should we give up on capitalism? Was Streek wrong; are democracy and capitalism really incompatible?

2) If proportional representation elections have a left-of-center bias and majoritarian elections have a right-of-center bias, what is the fairest electoral system? Is it necessary for a country simply to accept one of these two inherent biases, or is there a way of correcting this?

3) Which type of welfare do you prefer; means-tested, earnings-related, or universal? Somewhere in-between? Something completely different? Why?

4) THOUGHT EXPERIMENT

Consider the following thought experiment. You must take on the role of one of three different people. For each type, how would you allocate your political capital? You have 10 points to spend. Think carefully about your skills, education, job security and what might happen in the future.

Hi/General

You are a recent Harvard grad who concentrated in government. You are currently working at a start-up in San Francisco, and while your job involves some coding, you are also making use of your managerial skills.

Lo/General

You are a recent grad from ABC High School and finished one year of community college, with no plans to return to finish your second year. You are currently working as a secretary in a local real estate office. Turnover of secretaries at this office is relatively high, but there are other secretarial jobs in the local area.

Intermediate/Specific

You graduated from XYZ High School, which had a vocational education option. You elected to specialize in auto mechanics and have worked your way through the ranks to become a quality control person at a Tesla auto factory. Because Tesla primarily manufactures electric cars, you have developed specialized knowledge about electric vehicles. The future of electric vehicles in the U.S. is uncertain, so Tesla is not sure if it will continue to maintain manufacturing facilities in the U.S. going forward.

Disability Insurance	1	2	3	4	5	6	7	8	9	10
Old Age Pensions	1	2	3	4	5	6	7	8	9	10
Create a Union	1	2	3	4	5	6	7	8	9	10
Unemployment Ins.	1	2	3	4	5	6	7	8	9	10

Poverty Assistance 1 2 3 4 5 6 7 8 9 10