Government 83.02

Politics and Markets

Fall 2015
T (4-5:50) -Th (4-5:50) 3A
X-hour W: 3-4:15

Professor Linda L. Fowler

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Course Objectives:
The late Arthur Okun, a respected economist, once said: “There is a place for the market and the market must be kept in its place.” Today the place of the market remains the subject of intense political debate about government's responsibilities and citizens' expectations regarding its scope. Finding the proper balance between the market and the state has taken on new urgency in recent years with the financial collapse in 2008, trillion dollar budget deficits, rising income inequality, major reforms to the financial and health care systems, and looming consequences of global warming. Rhetoric about the size of government figured prominently in the 2012 presidential election and will be a major theme of the 2016 contests.

There are several different, but related dimensions to this debate. The first involves the tension between market values and public values, particularly the assumptions we make about human nature and the goals of political community. To what extent are the welfare of the few and the welfare of the many interdependent? Are democratic citizens rational egoists or do they seek other goals beyond individual utility maximization? The second has to do with how well markets function. Is market failure relatively uncommon or is it widespread? What, if anything should government do to correct the breakdown of market efficiency? What leads to ineffect government efforts to correct market failures? The third entails insurance against risks—old age, poor health, economic crises, natural disasters and the like. Should government provide insurance to protect individuals against harm? If so, what criteria should government apply in deciding what risks receive public help? The fourth has to do with the inequalities that are the inevitable by-product of market competition. When does inequality become a problem in a democratic society? Are some methods for reducing inequality more efficient or just?

We will examine each of these themes with readings drawn from political science, public policy, economic history, welfare economics, political theory and public law. We will use classic books and articles to explore the big themes and topical pieces to illustrate their applicability to contemporary politics and economics.

Readings:
In addition to the required texts listed below, students will be reading selected chapters and articles posted on the Canvas website for this course. In choosing the assigned readings, I have tried to give equal time to both sides of the ideological divide. The books below are at Wheelock Bookstore.

Cassidy, How Markets Fail: The Logic of Economic Calamities, 2009-10
Assignments:
Each student is responsible for a research paper on a topic of his/her choosing, which should be 20-25 pages. The paper involves several different steps listed in the syllabus: 1) proposal; 2) bibliography; 3) final version. Oral presentations will occur during the last days of class and will not be graded. Fran Oscadal, the reference librarian for social science, has set up a website to assist you with finding sources. He will also be attending class to show you how to use it.

In addition, all students will write two critical essays of no more than five pages each during the first three weeks of the semester that analyze the assigned readings and case study. Students may choose the day for which they want to write and will be responsible for circulating their papers the day before class.

Finally, all students should be prepared to engage in discussion, especially if they have written an essay for a particular day. I will circulate questions in advance and use occasional spot quizzes to facilitate participation.

Requirements:
Students should follow College procedures for citation outlined in the newly revised booklet, Sources. Pay particular attention to how you reference the ideas of authors, as well as direct quotes. I take plagiarism very seriously and do not consider ignorance of the rules an acceptable defense.

Late assignments receive a deduction of one grade per day, unless students have obtained an extension from me. I give extensions for students who anticipate major conflicts with other course requirements, if they ask in advance. For emergency situations, students should call me at home or email me to get permission to hand an assignment in late.

Students with special needs should talk to me outside of class about how we can make the learning environment most supportive.

Grades:
Research Paper –50 percent
Research proposal (2 pages)—10 percent
Bibliography (10-15 citations)—10 percent
Final paper (20-25 pages)—30 percent
Critical essay—20 percent
Critical essay—20 percent
Class participation and spot quizzes—10 percent

I have not planned to give a final exam in the course, but reserve the right to schedule one if I conclude that students are not preparing carefully for class.

Weekly Schedule:

I. Overview of the relationship between politics and markets

Th 09/17 Introduction—No Assignment

T 09/22 Goals for a democratic society: individuals and communities
The individualistic tradition
   Madison, Federalist 10, Canvas
Tocqueville, Excerpts on individualism and civic participation, Canvas
Friedman, *Capitalism and Freedom*, excerpt, Canvas

The communitarian tradition
Aristotle, *The Politics*, excerpt, Canvas
Mansbridge, *Beyond Self-Interest*, ch.1, Canvas

Case study: TED talks on happiness. Lectures by Barry Schwartz and Dacher Keltner
http://www.ted.com/talks/barry_schwartz_on_the_paradox_of_choice
http://www.youtube.com/watch?v=KsFxFsuB4I
PBS Newshour, "Can Money Buy Happiness?"
http://www.youtube.com/watch?v=NNMeXd6saybo

III. What do markets and the state do well or poorly?

Th 09/24  What markets do well
Samuelson, “Harvard’s Silly and Dreary Innovation Debate,” Canvas

Sat 09/26  Markets and the state
Lindblom, ch. 8-17
Case Study: What should money buy?
http://www.ted.com/talks/michael_sandel_why_we_shouldn_t_trust_markets_with_our_civic_life
Irwin, “More People Work in Countries with High Taxes and Generous Welfare,” Canvas

T 09/29  Market failures
Cassidy, *How Markets Fail*, ch. 1-8
Daly, *Our Mismeasured Economy*, Canvas
Case Study:
Nocera, "Sheila Bair's Bank Shot," Canvas
Lewis, “Wolf Hunters of Wall Street,” Canvas

Th 10/01  Sources of state failure: incomplete information, rent-seeking and inefficiency
DeCanio, “Democracy, the Market, and the Logic of Social Choice,” Canvas
Jacobs and King, "America's Political Crisis: The Unsustainable State In a Time of Unraveling," 2009, Canvas
Schuck, *Why Government Fails So Much*, ch. 3, Canvas
Teles, "Kludgeocracy in America," Canvas
Case Study: Brown and Jacobs, *Private Abuse of the Public Interest*, ch. 4, Canvas

T 10/06  Market methods for correcting market failures
Kamarck, "The End of Government as We Know It," Canvas
Goulder, "Markets for Pollution Allowances: What are the (New) Lessons?" Canvas
DiUlio, “Bring Back the Bureaucrats,” Canvas
Case Study: McCoy, “Meet the Outsider who Accidentally Solved Chronic Homelessness,” Canvas
Markets and National Defense
Singer, Corporate Warriors, ch. 4, Canvas
Thorpe, Warfare State, ch.1, 5, Canvas
Case Study: Kriner and Shen, The Casualty Gap, ch.2, Canvas

IV. Socializing risk

T 10/13 Private and public aspects of risk
Sugarman, "Roles of Government in Compensating Disaster Victims," Canvas
Lewis, "In Nature's Casino," Canvas
Admati and Hellwig, "Emperors of Banking Have No Clothes," Canvas
Case Study: Rand Report on Compensation of 9/11 Victims, Canvas

Th 10/15 Paper Proposals due. Be prepared to give a brief synopsis of your question and why it is interesting

Workshop on bibliographic resources with social science librarian, Fran Oscadal

T 10/20 The Middle Class Welfare State
Howard, The Welfare State Nobody Knows, Ch. 1, 3-4, Canvas
Mettler, The Submerged State, ch.2-3, Canvas
Case Study: Simpson-Bowles, National Commission on Fiscal Responsibility, Canvas

GUEST SPEAKER; FORMER U.S. SENATOR JUDD GREG (R-NH)

Th 10/22 The ‘Invisible Hand” of Government and the Problem of Accountability
Gawande, "The Cost Conundrum," Canvas
Moe, "The Emerging Quasi-Government," Canvas
Case Study: Bridgeland and Orzag, “Can Government Play Money Ball?,” Canvas

T 10/27 Bibliographies Due

Experiments on inequality

V. Economic Inequality: Is There a Role for the State?

Th 10/29 How much economic inequality in the U.S. is there?
Bartels, Unequal Democracy, ch.1, Canvas
Gilbert, “The Rich are Even Richer…,” Canvas
Putnam, Our Kids, ch. 1,2, Canvas
Case Study: Pew, "Pursuing the American Dream: Economic Mobility Across Generations," Canvas

T 11/03 How "natural" is the current distribution of income?
Piketty, Capital, Introduction, Canvas
Stiglitz, *Price of Inequality*, Ch. 2, 4
Manikew, "Defending the One Percent." Canvas
Case study: Saez et al, $320,000 Kindergarten Teachers," Canvas
Miller, “For Working Mothers, a Price to Pay,” Canvas

**Th 11/05**  Economics, social class and political participation
Lacy, “Moochers and Makers in the Voting Booth,” Canvas
Gelman et al, *Red State, Blue State*, Ch. 2, 6, Canvas
Schlozman et al, *The Unheavenly Chorus…*, ch.5, Canvas
Case Study: “Supreme Court Strikes Down Spending Limits,” Canvas

**T 11/10**  The politics of inequality
Bonica, McCarty, Poole and Rosenthal, "Why Hasn't Democracy
Slowed Rising Inequality?" Canvas
Bartels, *Unequal Democracy*, Ch. 2, 6, Canvas
Hetherington, *Why Trust Matters*, ch. 3, Canvas
Case Study: Thorpe, “Urban Divestment, Rural Decline and the Politics
Of Mass Incarceration,” Canvas

**Th 11/12**  Paper presentations and dinner at Fowler’s immediately following

**T 11/17**  Paper presentations in class

**Mon 11/23**  Papers due in my office at 5pm