

Government 83.02
Politics and Markets
Winter 2008
M 3-4:50; Th 4-6; X-hour M 5-6

Professor Linda 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." Defining that place is the subject of intense political debate regarding the responsibilities and expectations of citizens and the scope of government.

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. Is rational egoism the defining characteristic of democratic citizens? Should government intervention in the marketplace be limited to promote efficiency and individual liberty, or should government remedy the inequalities and the loss of community that are the inevitable by-product of free market competition? The second aspect of this debate concerns conflicting views about the use of regulation to correct market failures and adaptation of market mechanisms to accomplish public goals. At issue is the use of efficiency-based mechanisms, such as cost-benefit analysis, privatization and price incentives. The third point of contention revolves around the popular control of policy dealing with markets. Several issues are involved here: the distortion of markets because politicians pursue short-term economic gains in order to get reelected; and the use of economic power to gain political advantage.

We will examine each of these dimensions within the broader context of the relationship between politics and markets. Readings draw from political science and public policy, economic history, welfare economics, political theory and public law.

Readings:

In addition to the required texts listed below, students will be reading selected chapters and articles posted on the Blackboard website for this course. The texts are topical and address particular issues in the public realm, whereas the supplemental readings draw heavily from classics in the political economy literature. In choosing the assigned readings, I have tried to give equal time to both sides of the ideological divide. Thus, everyone is bound to be offended by some of the readings some of the time, which I hope will lead to lively discussion.

Required texts:

Gordon, *Dead on Arrival*, 2003
Howard, *The Welfare State Nobody Knows*, 2007
Lindblom, *The Market System*, 2001
Singer, *Corporate Warriors*, 2003

Assignments:

Each student is responsible for a research paper on a topic of his/her choosing, which should be 20-25 pages. It involves several different steps that are listed in the syllabus: 1) proposal; 2) bibliography; 3) literature review; 4) oral presentation; and 5) final draft. Oral presentations will occur during the last week of class.

In addition, each student will present a case study relevant to the readings of a particular week: for example, the application of cap and trade systems to control carbon emissions.

Students should follow College procedures for citation outlined in the booklet, *Sources*. I take plagiarism very seriously and do not consider ignorance of the rules an acceptable defense.

Grades will be awarded on the following basis:

Research Paper –75 percent
 Research proposal--10 percent
 Bibliography— 10 percent
 Literature review— 15 percent
 Oral presentations—no grade
 Final paper—40 percent
 Case study—15 percent
 Class participation— 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**

M	01/07	Introduction—No Assignment
Th	01/10	In Defense of Markets Smith, <i>Wealth of Nations</i> (1776), Bk1, ch. II, VII, Bk 4, ch. II, Blackboard Friedman, <i>Capitalism and Freedom</i> , Blackboard Howard, <i>The Death of Common Sense</i> , Blackboard Levitt and Dubner, <i>Freakonomics</i> , Ch. 1 Blackboard Case: Martin, The Eco-Potato Chip, Blackboard
M	01/14	Beyond Market Values Aristotle, <i>The Politics</i> , Blackboard Scully, <i>Dominion</i> , excerpt, Blackboard Sunstein, <i>Free Markets and Social Justice</i> , Ch. 1, Blackboard Frank, <i>One Market Under God</i> , excerpt, Blackboard Case: Compensating 9/11 victims

Th 01/17 Institutional Capacities of the State and the Market
Lindblom, *The Market System*, ch. 1-7

Case: Consumer protection from contaminated beef

M 01/21 No Class—MLK Holiday

T 01/22 Lindblom, ch. 8-19

Case: Development of the Internet

II. Mixing Public and Private

Th 01/24 Defining Market Failures
Stokey and Zeckhauser, *Primer for Policy Analysis*, ch. 14, Blackboard
Brown, “The Failure of Market Failures,” 1992, Blackboard
Olson, *The Logic of Collective Action*, 1965, excerpt, Blackboard
Soros, Why the Markets Can’t Fix Themselves, 2002, *New Republic*,
Blackboard

Case: Global climate change

M 01/28 No readings—paper proposals due
Workshop on references and sources

Th 01/31 Correcting Market Failures with Economic Incentives
Witte, *Market Approach in Education*, ch. 2, 6, Blackboard
Donahue and Nye, *Market-Based Governance*, Stavins, ch. 8, Blackboard

Case: Cap and trade for carbon sequestration

M 02/04 Privatization of Government Services
Savas, *Privatization and Public-Private Partnerships*, excerpt, Blackboard
Donahue and Nye, *Market-Based Governance*, Kamarck, ch. 10 Blackboard
Singer, *Corporate Warriors*, Chs 1-2

Case: Private operation of state prisons

Th 02/07 Privatization II
Singer, Chs. 3-end
Broder, *New York Times*, Blackboard

Case: Blackwater killing of civilians in Iraq

M 02/11 Socialization of Risk—Problems of Moral Hazard and Adverse Selection
Prescott, “Primer on Moral Hazard,” excerpt, Blackboard
Frame and White, “Fussing and Fuming over Fannie and Freddie,” Blackboard
Lewis, “In Nature's Casino,” *NYTimes*, Blackboard

Case: Western wildfires

Th 02/14 No Reading—Bibliographies due

Workshop on citations and plagiarism

- M 02/18 Income Inequality
Okun, *Efficiency and Equality: The Big Trade-Off*, 1975, pp 1-31, Blackboard
Bartels, "Homer Gets a Tax Cut," Blackboard
Campbell, *How Policies Makes Citizens*, Ch. 1,2, Blackboard

Case: Abolition of the "death tax"

**Th 02/21 Literature Reviews Due
No reading assignment**

- M 02/25 The Middle Class Dole
Howard, *The Welfare State Nobody Knows*, entire

Case: Federal loans for college tuition

III. Markets and Political Influence

- Th 02/28 The Politics of Health Care
Brickner and Scanlan, "Health Care for Homeless Persons," Blackboard
Gordon, *Dead on Arrival*, Ch. 1-3

Case: Medicare financial crisis

- M 03/03 Gordon, Ch. 4-end

Case: Comparison of 2008 candidates' health proposals

**Monday 03/03 Dinner at Fowler's 6 -9pm
Oral Presentations**

- Th 03/06 Elections and the Economy
Keech, *Economic Politics: The Costs of Democracy*, ch 3,4, Blackboard
Scheve and Slaughter, *Globalization and the Perceptions of American Workers*, 2000, ch. 2, Blackboard

Fri 03/07 Papers due in my office at 9 pm