

Political Economy of Inequality

Session 2: Types of capitalism and different inequality outcomes

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Introduction and overview

Welcome back!

What we will focus on today:

- ▶ International political economy and inequality
- ▶ Types of capitalism → Varieties of Capitalism as a theoretical framework
- ▶ How do institutions affect inequality outcomes

But before that....

- ▶ **Data analysis exercise:** Group exercise is okay!
- ▶ Data assignment based on publicly available data - Descriptive analysis with whatever software you want

But before that....

- ▶ **Data analysis exercise:** Group exercise is okay!
- ▶ Data assignment based on publicly available data - Descriptive analysis with whatever software you want
- ▶ **Essay:** 3000+ words on either a course-specific questions or a topic of your choice (but please discuss with me first)
- ▶ **Deadline:** End of semester for **both** data analysis exercise and essay

Okay, back to inequality: Inequality and different capitalist systems

Capitalism in time

Let us divide economic systems into three different eras:

1. Gold standard (19th century - WWII)
2. Embedded liberalism (Post-war - 1970s)
3. Neoliberalism (1980s-)

Gold standard

- ▶ Link currencies to gold price to avert inflation
- ▶ Open capital and open current accounts
- ▶ Low taxes and low transfers, flexible labor markets
- ▶ State as a 'night-watchman'
- ▶ Free financial flows and profit-led growth
- ▶ Problem of deflation and wages as adjustment mechanism
- ▶ Suggested reading: (Blyth 2013)

Embedded liberalism (Ruggie 1982)

- ▶ Need to guarantee full employment →after fascism, communism and great depression, probably a good idea!
- ▶ Open current accounts, but closed capital accounts. Finance was heavily regulated
- ▶ High taxes and high transfers, homogeneous economies (national champions)
- ▶ Problem of inflation →Productivity, wage growth and negative return on capital
- ▶ Wages →Indexation mechanism
- ▶ Inflation as a distributional problem (Hung and Thompson 2016)

Neoliberalism

- ▶ Oil shock crisis of the 1970s and stagflation (inflation + unemployment)
- ▶ Controlling inflation
- ▶ Global integration, open financial markets
- ▶ Less welfare state, global governance
- ▶ Lower taxes and lower transfers
- ▶ Profit-led growth model and flexible labor markets

Varieties of capitalism

So does everything become 'neoliberal'?

- ▶ *Varieties of capitalism* (Hall and Soskice, 2001) → Important to think about the time in which it was written
- ▶ Converging market economies?
- ▶ Focus on firm-level → Question of how different types of capitalism are organized
- ▶ Types of market economies: **liberal market economies** (LMEs) vs. **coordinated market economies** (CMEs)
- ▶ Institutional *complementarities* → Govern capital and labor relations
- ▶ Market-based coordination mechanisms vs. Non-market coordination mechanisms

Varieties of Capitalism

	Liberal market economies	Coordinated market economies
Distinctive coordination mechanism	Competitive markets and formal contracts	Inter-firm networks and associations
Financial system	Domestic and international capital markets	Domestic bank lending and internally generated funds
Corporate governance	Outsider control: dispersed shareholders	Insider control: concentrated shareholders
Industrial relations	Pluralist, market-based, hardly any collective agreements	Corporatist, rather consensual, sector-wide or even national agreements
Skill formation	General skills, high research and development expenditures	Company- or industry-specific skills, vocational training
Transfer of innovations	Based on markets and formal contracts	Important role of joint ventures and business associations
Comparative advantages	Radical innovation in technology and service sectors	Incremental innovation of capital goods

Figure 1: Source: Nölke (2011)

What about the role of industrial relations?

- ▶ Beneficial constraints and the 'high-road' for economic specialization (Streeck 1997)
- ▶ Solidaristic wage policy and the Rehn-Meinder model in Nordic countries (Kenworthy 2019)

Today's readings

Rueda and Pontusson (2000)

- ▶ Methodological point: validity of regression analysis of aggregating different countries?
- ▶ Every country is unique → Can one / should one aggregate heterogeneous countries together?
- ▶ 'From the perspective of comparative political economy, the interesting question is not whether institutions in this broad sense matter but rather which institutions matter and how (why) they matter.' (p. 358)

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 - ▶ Unemployment rates
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 - ▶ Female labor force participation
 - ▶ Union density
 - ▶ Centralization of wage bargaining
 - ▶ Public sector's share of total employment
 - ▶ Government partisanship
- ▶ Let us think about the mechanisms...

Findings

- ▶ Effects of government partisanship are contingent on the institutional context
 - ▶ LW government less wage inequality in LMEs, different mechanisms in social market economies
 - ▶ Union density as the most important factor in explaining inequality trajectories

Polanyi, *The Great Transformation* (1944)

- ▶ *Double movement* → Attempts to expand market mechanisms were also met with attempts to protect society
- ▶ Market embedded within society
- ▶ Speenhamland system of local parishes to supplement the incomes of workers, cynical use of this system by employers.

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- ▶ Speenhamland system of local parishes to supplement the incomes of workers, cynical use of this system by employers.
- ▶ Repeal of Speenhamland system and foundation of market ruled by supply and demand
- ▶ Cross-class coalitions to shield workers from capitalism, emergence of capitalism did not only have consequences for workers but also broader segments of society
- ▶ Non-market institutions play a key role in maintaining the capitalist system → Reconciling market relations & social imperatives

A more sociological reading of income inequality
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- ▶ Protective institutions: Public sector employment, trade unions and the family (Ringmar 2005)
- ▶ Economically vulnerable populations
- ▶ Recurring puzzle: if technology, globalization and demographics are to blame, then what accounts for the different inequality trajectories in different countries?
- ▶ Argument → Where protective institutions have weakened, inequality has increased

Policies reducing inequality

- ▶ Public spending in democracy → spend money to redistribute resources.
- ▶ Trade unions and collective bargaining, but more on this in the next sessions
 - ▶ Family: Single mothers, gender wage gap and educational factors
 - ▶ Complicated relationship between demographic changes and inequality

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- Streeck, Wolfgang. 1997. "Beneficial Constraints: On the Economic Limits of Rational Voluntarism." *Contemporary Capitalism: The Embeddedness of Institutions*, 197–219.