

Cambridge University Press

978-0-521-88688-8 - Selected Works of Michael Wallerstein: The Political Economy of Inequality, Unions, and Social Democracy

Edited by David Austen-Smith, Jeffry A. Frieden, Miriam A. Golden, Karl Ove Moene and Adam Przeworski

Excerpt

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General Introduction

Jeffry Frieden and Adam Przeworski

Michael Wallerstein's tragic death at the age of fifty-four deprived the world of one of its leading political economists. For twenty-five years Wallerstein had been in the forefront of rigorous analysis of the political economy of contemporary industrial societies. His research on relations between labor and capital, on labor organization, and on inequality and redistribution framed and advanced the study of central problems in modern politics and economics. This volume brings together Wallerstein's principal contributions, in the hope that their joint impact will demonstrate the scale of Wallerstein's achievement and advance the values that guided his life work.

Michael Wallerstein and Modern Political Economy

The modern study of political economy is quite recent. Forty years ago the term was barely used, and it was rare for scholars in the mainstream of the social sciences to study the interaction of political and economic forces. There were, to be sure, some scholars in the Marxist tradition, and others in the newer tradition of public choice theory, who analyzed aspects of the relationship between the economic and political systems. But there was no generally accepted field of political economy, and there was virtually no interaction between the two disciplines best suited to study it, political science and economics.

Today political economy is one of the most dynamic fields of investigation in both economics and political science, with a plethora of conferences and journals and handbooks of its own, displaying some of the biggest names

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in the social sciences.¹ Three interrelated strands constitute contemporary political economy, all of them thriving. One is the impact of political factors on economic, and economic-policy outcomes. This includes investigations of electorally motivated business cycles, of the effects of partisan differences on policy, of the implications of different institutional settings for aspects of economic performance, and the like. A second strand of modern political economy is the impact of economic factors on politics. This includes the effect of economic interest groups on trade policy, and of such macroeconomic variables as unemployment and inflation on presidential voting. The third sort of political economy is methodological, and involves the use of economic models for the study of political interactions. Working together, these strands suggest political-economic equilibria, in which individuals and groups strive in the political arena for policies whose consequences they anticipate, while as economic agents they pursue their private objectives within the constraints of these policies. Together, these complementary and interrelated approaches have made substantial contributions to our understanding of how societies work.

Michael Wallerstein carried out path-breaking work in all three modes of political economy. He was one of the first political scientists to make extensive use of serious graduate training in modern economics. Wallerstein came to this blend of political science and economics by an unusual route. While a graduate student in political science at the University of Chicago in 1974, he enrolled in Adam Przeworski's course on the Marxist theory of the state. As the course went on, both Wallerstein and Przeworski concluded that this theory was based on an inadequate, often erroneous, understanding of the capitalist economy. Unlike those who reacted by engaging in increasingly arcane doctrinal debates, Wallerstein chose to traverse what was probably the deepest ideological divide of the time in search of the truth. He crossed the University of Chicago quadrangle to the Department of Economics, a stronghold of conservative market-oriented economic thinking dominated by the likes of Milton Friedman, George Stigler, Gary Becker, and Robert Lucas. These scholars were and remain giants of modern economics, but at the time the thought that a left-wing political scientist might have something to learn from them was practically heretical.

From Chicago's economists, Wallerstein obtained systematic training in economics, and became fascinated with the tools of economic analysis. Yet

¹ Such as the *Oxford Handbook of Political Economy* ed. Barry Weingast and Donald Wittman (Oxford: Oxford University Press, 2006).

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he never abandoned his political commitment. Nor did he compromise his commitment to combining politics and economics, with a thorough command of both political science and economics. He brought theoretical and empirical rigor to the analysis of central issues in political economy, and did so with close attention to the implications for political action. Wallerstein was a pioneer in all dimensions of political economy: in bringing the most rigorous practices of both disciplines together, in exploring the interaction of politics and economics, and in applying economic methods to politics. He was also a pioneer in addressing questions typically associated with the Marxist left with tools usually associated with mainstream neoclassical economics.

Labor, Capital, and Politics

The early study of political economy was developed and applied to a series of questions about the interrelationship of politics and economics that had long exercised political scientists and economists. One strand of the developing approach focused on the role of special interests in affecting government policy, such as industrial lobbies for trade protection. Another strand emphasized the use of macroeconomic policy for electoral purposes, as in the political business cycles that were alleged to characterize many electoral democracies. Both strands were productive and engaging.

Michael Wallerstein's interests were broader. He was concerned to understand problems that have been central to modern capitalist societies since the rise of modern capitalism itself. Most generally, he wanted to know the conditions under which societies could achieve both material well-being and an equitable distribution of income. This led him to look at how labor, capital, and the government interacted, and the circumstances under which these interactions could result in improved conditions for labor while sustaining overall economic growth and prosperity. Four interrelated topics attracted Wallerstein's interest, in all of which he made important scholarly contributions. The topics are presented in detail in the introductions to the relevant parts of this volume; what follows is a summary treatment of the main outlines of the issue areas.

Relations between Labor and Capital

Wallerstein was particularly interested in a central problem in classical political economy, which had faded from view as both economics and political

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science evolved away from their classical roots. This was how property-less workers could coexist with propertied capitalists when the immediate incentives of the working class all pointed toward the desirability of expropriating capital. With the rise of modern electoral democracies, in which the laboring classes were well represented, it was particularly hard to understand why class relations were as peaceful as they had turned out to be in the latter part of the twentieth century. Wallerstein rejected the simplistic notion that the working class simply did not know, or did not act upon, its own interests.

Wallerstein and his coauthor Adam Przeworski showed that workers can rationally forgo the benefits from expropriating capital, in the anticipation of greater gains in the form of a stream of future income that results from labor-capital cooperation. They extended this argument to show that it was similarly rational for a labor-based government to restrain its taxation to permit capitalists to retain a substantial share of their income.

In this and related work, Wallerstein demonstrated the great value and flexibility of rigorous political economy models of sociopolitical behavior. He also helped clarify important topics in both political science and economics. The role of labor-capital conflict in politics continues to be central in both analyses of contemporary politics, and in politics itself. So, too, does the set of policies best suited to improving the position of labor continue to be a subject of great concern to scholars, policy makers, and activists.

The Organization of Labor

Wallerstein's interest in how labor could organize itself both to bargain with capital and to further its interests in the political arena led him to investigate precisely how workers develop the collective institutions that they do. The extent and form of labor organization vary enormously from country to country, as well as having changed over time.

Here, too, Wallerstein brought to bear rigorous analytical tools. He developed theoretically grounded arguments and evidence to show why workers might be better organized in some countries than in others, and how their patterns of organization could affect the kinds of bargains labor unions would strike with employers.

As he worked on this set of topics, Wallerstein came to recognize the paucity of reliable data. He worked to rectify this, and, together with Miriam Golden and Peter Lange, put together a major new database on the organization of labor in advanced industrial societies. On the basis of these

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new statistical resources, he went on to try to understand the diversity of historical and contemporary experiences of national labor movements. Wallerstein rejected, for example, the simplistic notion so popular in the 1990s that labor's organizational strength had waned for good, showing – as would soon become clear – that in many industrial nations it continued to be powerful.

Labor and Redistributive Politics

One could hardly be interested in the role of labor in modern capitalist societies without being concerned with the impact of labor's political action on the distribution of income. Indeed, much of Wallerstein's early interest in the organization of labor unions was related to his belief that this could contribute to a more equitable distribution of income, not only between labor and capital but among different groups of workers. Wallerstein showed with his characteristic care and rigor that this was indeed the case, that the ways in which wage bargaining was carried out could have a powerful impact on wage dispersion, and in particular on the fortunes of poorer and less skilled workers.

From this finding, there were natural extensions to the role of labor in affecting the distribution of income and opportunities in society as a whole. With Karl Ove Moene and David Austen-Smith, Wallerstein examined the ways in which workers and the poor could attain a more equal society.

Labor and Social Democracy

In the European political arena, one of the principal means by which the working class has affected its position in society is by way of its organization into socialist and social democratic parties. These parties have become so much a fixture of the European political landscape that scholars have sometimes taken their origins, the sources of their strength, and their impact on policy for granted – just as their purported decline in the 1990s was widely (if prematurely) predicted.

Wallerstein's research on organized social democracy, again with Karl Ove Moene, demonstrated the foundations of the social democratic model and its implications for politics and policies in the industrialized nations. It also showed that the model continues to have contemporary relevance, as people around the world look for a way to combine markets and politics to create societies that are both prosperous and equitable.

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A Seminal Contribution

Michael Wallerstein made fundamental contributions to the development of modern political economy. His research brought political and economic factors together into an integrated picture of how modern societies operate. It did so with analytical rigor and empirical care, and pointed the way forward for generations of scholars to come. Wallerstein's research both reflected and enhanced his lifelong commitment to bettering the lot of the world's working people. His scholarly, political, and personal legacy is an enduring one that will long affect the analysis of modern societies.

Biographical Note

Michael Wallerstein was born in Topeka, Kansas, in 1951, and he was raised there and, later, in Marin County, California. He received his B.A. from Stanford University, and his Ph.D. from the University of Chicago in 1985. Wallerstein joined the Department of Political Science at the University of California, Los Angeles, in 1984, and taught there for ten years. His long-standing interest in Scandinavian social democracy led him to spend the 1989–1990 academic year in Norway, at the University of Oslo's Department of Economics and the Institute for Social Research.

In 1994, Wallerstein moved to Northwestern University's Political Science Department. He served as chair of the department from 1997 to 2000. In 2004, Wallerstein moved to the Yale University Department of Political Science, and soon after he was appointed the Charlotte Marion Saden Professor of Political Science. Always active in the political science profession, Wallerstein was a leading figure in both the Political Economy and the Comparative Politics Sections of the American Political Science Association, serving on both sections' executive councils, and as president of the Comparative Politics Section. He also served as a member of the Executive Council of the American Political Science Association. Wallerstein was a fellow of the American Academy of Arts and Sciences.

Michael Wallerstein died of brain cancer on January 7, 2006, shortly before his fifty-fifth birthday.

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PART I

Class Conflict, the State, and Economic Limits to Democracy

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*Introduction**Adam Przeworski*

The three articles included in this part reflect the intellectual preoccupations of the time when they were written. But they approached classical questions with new instruments of analysis and generated new answers.

The first puzzle they address concerns the strategies of labor movements under democratic conditions. What motivated this puzzle was the belief, held in the nineteenth century by thinkers across the entire political spectrum, from Thomas Macaulay to Karl Marx, that if workers were to gain political rights in the form of suffrage, they would use this right to confiscate property. Alternatively, if they were to win the right to freely associate, they would destroy productive property by making confiscatory wage demands. The conflict between capital and labor, Marx maintained, was irreconcilable. Even if the economy grew, “profit and wages remain as before in inverse proportions” (Marx 1952a: 37). In turn, Marx (1934, 1952b) and most of his followers expected that, faced with the threat of confiscation by the working class, the bourgeoisie would inevitably turn for protection to arms, and thus subvert democracy. Capitalism and democracy, therefore, could not coexist. Capitalist democracy could be “only the political form of revolution of bourgeois society and not its conservative form of life” (Marx 1934: 18), “only a spasmodic, exceptional state of things . . . impossible as the normal form of society” (Marx 1971: 198).

Yet they did coexist, uneasily in some countries at times, but quite peacefully and smoothly in several countries of Europe. When workers became organized into unions and parties, they were willing to moderate their wage demands and to obey the verdicts of the polls. And when they reached office in capitalist societies, workers’ parties defended democracy, even when this defense entailed economic sacrifices and electoral defeats.

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The explanations of this behavior that prevailed at the time among leftist critics of social democracy claimed either that workers were ideologically dominated by the bourgeoisie, who controlled the means of mass communication, or that they were repeatedly betrayed by their co-opted leaders. In these explanations, workers were thus either dupes or suckers, neither of which seemed plausible. Hence, the question Przeworski and Wallerstein posed was whether this strategy of the working-class movements could be understood in terms of their interests, that is, whether it was economically rational.

To examine this question, we studied a simple model of bilateral monopoly, in which one encompassing, centralized union chooses the labor share and identical competitive firms decide how much to invest.¹ In the Stackelberg equilibrium of this model, in which the union chooses labor's share of value added anticipating the investment decisions of firms, the union exercises a large degree of wage restraint. The reason is obvious: if a higher labor share causes firms to invest less, workers are trading off current for future consumption.² We concluded, therefore, that unless workers can expropriate capital and run firms on their own, the moderate strategy on the part of the union was rational. In turn, facing moderate demands, the bourgeoisie not only invests but can also live with democracy. As a result, a "democratic class compromise" naturally emerges, at least as long as everyone is sufficiently patient and the investment is sufficiently productive.³

The model of a centralized, encompassing union was sufficient to make a theoretical point about the rationality of wage restraint, but it did not generate comparative statics that would account for cross-national differences. To do so, we wrote several models allowing for different structures of unions. One parameter was the number of union federations; another was whether union agreements applied to nonmembers. The control variable of the unions was the wage rate (although we also studied Leontieff-like models in which bargaining includes employment), and we allowed wage rates to affect prices. What we found was that, as in the influential article by Calmfors and Driffill (1988), purely competitive labor markets and perfectly centralized unions dominated fragmented labor markets in employment and

¹ For a general review of bilateral monopoly models, see Wallerstein (1990a).

² The model assumed that workers consume all of their income, so that investment is financed entirely out of profits. This assumption was subsequently shown by Bertola (1993) to hold generally in a linear economy with concave utility functions.

³ Subsequently, Przeworski (2005) and Benhabib and Przeworski (2005) have shown that such a compromise is also more likely in wealthier societies.