Economic Crisis, Public Policy, and Inequality

(Proposal to the Global Collaborative Research Fund)

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The breadth and depth of the current global economic downturn has analysts reaching back to the Great Depression for historical analogies. While it appears that the current crisis will not approach that one in magnitude or duration, it nevertheless raising a variety of pressing scientific and policy questions about how the world’s democracies are responding to financial meltdowns, deep recessions, and prolonged high unemployment. The first wave of massive financial bailouts and economic stimulus efforts is well underway, and even more significant economic and political reforms are likely to be debated in a variety of countries in the months and years to come.

We propose to recruit an international team of scholars to study policy responses to the economic crisis in a variety of democratic political systems. We hope to account for similarities and differences in the policies adopted in different countries and to trace the economic and political effects of those policies. Are policy changes initiated and shaped by elected representatives or by central bankers? Do they emphasize structural reforms or short-term aid? Does aid flow mostly to businesses and banks or to displaced workers and homeowners? Does a country’s reliance on international trade, public indebtedness, or prevailing level of economic inequality significantly constrain its policy responses? To what extent are policies subject to international coordination or informal diffusion?

In the United States, economic crises ended the Gilded Age and the Roaring Twenties, stimulating
the major economic and political reforms of the Progressive Era and the New Deal, respectively. However, the Great Depression stimulated very different responses in other industrial democracies, ranging from dogged clinging to the gold standard in France to political paralysis and the rise of Nazism in Germany. Similarly, the oil shocks and “stagflation” of the 1970s produced a variety of policy responses in rich countries, including varying degrees and combinations of privatization, deregulation, and welfare state retrenchment.

While historical patterns are likely to be informative, they will not be entirely reliable guides to the political economy of the current economic crisis. Increased globalization, especially of financial markets, may significantly alter the incentives and strategies of both governments and economic actors. Moreover, changing structures of political authority seem likely to create new political opportunities and challenges—witness the friction already occurring between economic policymakers in Germany and the rest of the European Union. And, whereas the economic downturn of the 1970s ended a quarter-century marked by unusually rapid and egalitarian income growth in most industrialized nations, the current downturn comes at the end of a quarter-century in which many (but not all) countries have experienced escalating inequality and middle-class income stagnation.

Our aims are, first, to examine how the world’s democratic systems are responding to the current economic crisis, and, second, to analyze the causes and consequences of those policy changes in comparative perspective. Are policy-makers responsive to demands (if there are demands) by citizens for economic reform? Are they sensitive to pressures from investors and other economic elites? Are their policy choices significantly constrained by the magnitude and structure of existing government involvement in employment, housing, and other key sectors? Do the policies they adopt mitigate or exacerbate existing economic and social inequalities?

In pursuit of answers to questions like these, we propose to build an international network of political scientists, economists, sociologists, and historians with expertise in analyzing policy-making in specific countries as well as scholars focusing on broader comparative themes including “varieties of
capitalism” and the welfare state, comparative political institutions, party systems and public opinion, and the political economy of inequality. While the immediate goal of our network is to coordinate and facilitate research on the nature and consequences of the current economic crisis, we also expect our activities to generate more—and more sophisticated—long-term collaborative efforts to better understand the political economy of democratic states.

Our proposed research network will build upon the activities we plan to undertake in collaboration with Nancy Bermeo of Oxford University as part of a research cluster recently funded by the Princeton Institute for International and Regional Studies (see attached letter from PIIRS Director Katherine Newman). Along with funds in hand or pending from other sources, the PIIRS grant will allow us to devote substantial time and energy to individual and collective research projects directly related to the themes of our proposed network. Additional support from the Global Collaborative Research Fund would provide us with the resources necessary to create a durable network of scholars and scholarship inspired by the challenge of understanding the political economy of the current crisis. Through this network, we hope to build connections with and promote collaborative research among a larger, more diverse group of scholars than the contributors to the edited volumes that we plan to produce under the auspices of the PIIRS research cluster. In addition to supplementary support for conferences and workshops, we seek support for the development of a website that would serve to disseminate data and research papers among members of the network, for the acquisition of new data that are not readily available, and for graduate-student training and participation in the network.

**Network Structure and Activities**

We propose to build an international network of scholars studying the political economy of the current global economic crisis. The primary nodes of the network, in addition to Princeton, will be Oxford University in Britain, Sciences Po in France, and the Max-Planck Institute in Germany. We have identified leading social scientists in each of these institutions who share our interest in analyzing and
explaining governmental responses to the crisis, both as significant instances of policy change in their own right and as revealing examples of broader patterns of democratic policy-making. (Letters of support from relevant scholars at these three institutions are included as attachments to this proposal).

Beginning with these connections, we hope to build a growing community of scholars and students who share our interests. Some of these will be scholars and students from Princeton, Oxford, Sciences Po, and Max-Planck, but we will also use our various conferences and workshops to recruit and connect scholars and students from other universities and institutes around the world. While our initial focus will be on relatively wealthy industrialized democracies, we hope in the later stages of our project to incorporate scholars and scholarship from the emerging democracies of Eastern Europe, Asia, and Latin America as well.

As a first step in that effort we will be hosting a conference on “The Politics of Economic Crisis” in Princeton in March 2010 (with funding from PIIRS, the Center for the Study of Democratic Politics Volker Fund, and the Princeton-Oxford Research Collaboration Program). We view this conference as a preliminary effort to bring together leading scholars studying policy responses to the current economic crisis, and as an opportunity to hone and disseminate scholarly assessments of the theoretical implications and practical consequences of those policy shifts. The stature and diversity of the scholars we have recruited to participate in this conference is indicative of the sort of collaborative network we hope to establish. They include Chris Anderson (Cornell University), Ben Ansell (University of Minnesota), Pablo Beramendi (Oxford), Torben Iversen (Harvard), Harold James (Princeton), Johannes Lindvall (Oxford/Lund), Nolan McCarty (Princeton), David Rueda (Oxford), David Soskice (Duke/Oxford), Kathleen Thelen (MIT), Yves Tiberghien (University of British Columbia), Steven Vogel (UC Berkeley), and Anne Wren (Trinity College Dublin).

The Princeton conference is merely the first step in what we hope will be a long-term effort to strengthen and expand the international network of scholars studying comparative political economy, inequality, and democratic policy-making. We envision a series of conferences and workshops that will
allow us to recruit additional scholars and students, expanding the reach of our network and the range of countries and questions we collectively address. Our plan is to host one major conference in each of the three years of our project. We have already begun preliminary planning for a conference in Oxford during 2010-11, funded in part by the Oxford Centre for the Study of Inequality and Democracy. We hope to organize a second conference in 2011-12 in cooperation with our network partners in Paris or Cologne, and a final conference in Princeton in 2012-13. While the agenda of these conferences may change as our project evolves, our current plan is to focus the first conference on public opinion, electoral politics, and social movements, the second conference on the implications of the economic crisis for the structure of the welfare state and varieties of capitalism, and the third conference on the impact of financial crises on the distribution of income and the politics of inequality.

Each of these conferences will include Princeton faculty and graduate students as well as some “core” participants from Oxford, Sciences Po, and Max-Planck and additional international scholars with expertise in the specific subject of the conference. Our aim is to include a mix of “old” and “new” participants in each conference in order to nurture and extend the long-term intellectual collaborations envisioned in our project; we expect those collaborations to extend well beyond the conferences themselves and the publications stemming directly from them.

In addition to these conferences, we propose to host a series of smaller, more focused workshops in Princeton. These will provide opportunities for direct collaboration between Princeton scholars and students of political economy and inequality and international scholars and students with relevant expertise and interests. Two workshops in the first year of our project will focus on nuts-and-bolts issues of data collection: one involving policy scholars versed in the details of government budgets and programs, to help us assemble systematic data on policy responses to the crisis, and the other involving economists and sociologists with expertise in measuring economic inequality both nationally and cross-nationally. Our third workshop (following up on the previous year’s conference in Oxford) will focus on measuring public opinion regarding inequality and public policies, while the final workshop (in 2012-13)
will bring scholars of “advanced” and “developing” democracies together to discuss similarities and differences in the policy responses of those systems to economic downturns.

A second key element of our project will involve investment in infrastructure to facilitate systematic cross-national research on the economic, political, and policymaking processes central to understanding the causes and consequences of the current crisis. In order to facilitate collaboration and coordination among all the scholars and students involved in our project we plan to establish a project website allowing for continuous exchange of drafts of papers, references, and research ideas. In addition, the website will be used to organize and disseminate cross-national data for the collective use of scholars associated with the project. Many of these data will be collected by project participants in the course of their own research and then shared with the group; however, we also hope to acquire additional data that individual scholars would be unable or unlikely to acquire on their own.

We believe that convenient access to economic, budgetary, electoral, and public opinion data in consistent form for a variety of countries will greatly facilitate the comparative analyses of policymaking that we envision as the heart of our project. Some of these data are already publicly available, but difficult for non-specialists to access or interpret. For example, the Organization for Economic Co-operation and Development (http://www.oecd.org/home/) publishes a wealth of statistics on economic and financial activity, social welfare, and government expenditures; by selecting and annotating the most relevant of these statistics we could jump-start cross-national comparisons of the dimensions of the current economic crisis and of political responses to the crisis. Similarly, the Luxembourg Income Study (http://www.lisproject.org/) maintains a very extensive archive of microdata on income, wealth, labor market participation, and demographics from a variety of rich democracies; our contribution would be to extract up-to-date evidence regarding changing patterns of employment, welfare provision, and economic inequality in consistent form to facilitate comparative analysis. And the World Values Survey (http://www.worldvaluessurvey.org/) and International Social Survey Programme (http://www.issp.org/) have generated numerous public opinion surveys in a wide variety of countries over a span of decades; by
identifying specific questions in these surveys tapping public attitudes about inequality, welfare provision, and public policy, then creating reliable, consistent scales summarizing responses to those questions for nations and key sub-populations, we can facilitate systematic analysis of the role of public opinion in the policy-making processes of contemporary democracies.

We also propose to explore possibilities for acquiring or generating additional data relevant to our project. For example, the international polling firm GlobeScan Incorporated has conducted relevant cross-national surveys for BBC World Service tapping public attitudes toward government spending and regulation in the wake of the economic downturn; the resulting survey data have not been publicly released, but are available for purchase. We also plan to investigate the possibility of purchasing small amounts of time on existing national political surveys in order to incorporate a modest series of consistent questions designed to shed light on public perceptions of and reactions to the economic crisis.

**Participating Scholars and Institutions**

Princeton is one of the world’s leading centers of research on political economy, inequality, and democratic policy-making. A list of prominent political scientists, economists, sociologists, and historians with interests in these areas would include Roland Benabou, Carles Boix, Charles Cameron, Brandice Canes-Wrone, Rafaela Dancygier, Christina Davis, Sheldon Garon, Martin Gilens, Harold James, Nolan McCarty, Grigore Pop-Eleches and Thomas Romer, among others. Some of these scholars have already developed close ties with colleagues in other parts of the world; however, by involving them in our international network we hope to extend those ties, parlaying personal connections into broader institutional connections. In addition, our project will contribute significantly to broadening the perspectives and expertise of those whose previous work has focused solely or mostly on the United States, including Bartels, Cameron, Canes-Wrone, Gilens, McCarty, and Romer.

Most of these scholars are regular participants in the activities of the Center for the Study of Democratic Politics (CSDP), a research center in the Woodrow Wilson School supporting empirical
research on democratic processes and institutions (http://www.princeton.edu/csdp/). Under Bartels’ direction, CSDP in the past decade has hosted more than 50 year-long visits by fellows ranging from eminent senior figures in the field to advanced graduate students. Several of these visitors have pursued research closely related to the themes of our proposed research network. For example, Northwestern University sociologist Leslie McCall spent the 2008-09 academic year writing a book on Americans’ attitudes toward inequality, and Oxford political scientist David Rueda is spending the 2009-10 academic year collaborating with Pontusson on a book examining the consequences of income inequality for party politics and voter mobilization in OECD countries. In addition to hosting visiting scholars, CSDP sponsors a vibrant weekly seminar, conferences, and other activities. We expect that many of the faculty and students taking part in our network will continue to interact formally and informally through CSDP in the years to come, contributing significantly to both the international profile of the Center and the intellectual breadth of the scholars associated with it.

We also propose to draw upon the existing infrastructure of the Princeton Institute for International and Regional Studies and its Global Network on Inequality (GNI). Under the direction of Katherine Newman, GNI (http://www.princeton.edu/~gni/) has established links with 25 universities and institutes in Europe, Asia, Africa, and Latin America, providing opportunities for Princeton Ph.D. students to pursue international fieldwork and collaboration with some of the world’s leading scholars of inequality, including scholars at each of the three institutions we have identified as primary partners in our own network—Oxford University, Sciences Po in Paris, and the Max-Planck Institute in Cologne. We hope and expect that Princeton graduate students will avail themselves of the opportunities offered by GNI to parlay connections initiated in our conferences and workshops into longer-term relationships with mentors overseas.

Oxford, like Princeton, is a leading center of research on political economy and inequality, with such prominent social scientists and historians as Tony Atkinson, Pablo Beramendi, Nancy Bermeo, Duncan Gallie, Desmond King, Johannes Lindvall, Stephen Nickell, David Rueda, Mari Sako, Martin
Seeleib-Kaiser and David Soskice. Several of these scholars are already slated to participate in our March 2010 conference on policy responses to the economic crisis, and we look forward to their continued involvement in our ongoing project. Bermeo—a longtime member of the Princeton faculty and the third principal investigator in our recently-funded PIIRS research cluster—is the founder and director of the new Oxford Centre for the Study of Inequality and Democracy (OCSID), which will provide an invaluable institutional base for our project in Oxford (http://ocsid.politics.ox.ac.uk/).

The role of Oxford and OCSID in our network will be facilitated and reinforced by existing institutional ties between the two universities, including Bermeo’s participation in our PIIRS research cluster and the Princeton-Oxford collaborative research program. Already during the current academic year, the Princeton-Oxford program is helping to fund Rueda’s year-long residence in Princeton as well as the visits of two Oxford PhD students in political science, Ignacio Jurado and Timo Idema, as Visiting Student Research Collaborators. We hope and expect our project to stimulate additional traffic of students and faculty between the two universities under the auspices of the Princeton-Oxford program.

Our proposal dovetails with recent efforts by Nonna Mayer and her colleagues at Sciences Po to launch a new research network on political inequalities, POLINE (http://www.sciences-po.fr/recherche/en/recherche/POLGAP/index.htm). Bartels and Bermeo were among a score of scholars and students who attended the first international meeting of POLINE in Paris in December 2009. In addition to facilitating scholarly exchange among political scientists and political sociologists interested in various dimensions of social and political inequality, the group is in the early stages of organizing an international conference on perceptions of inequality—a possible first step toward generating new cross-national survey data enriching our understanding of the politics of inequality in the wake of the current economic crisis. By connecting with Mayer and her colleagues, we hope both to contribute to their efforts and to enlist their expertise in support of our own related project. We also hope to include other scholars at Sciences Po in our network, most notably Bruno Palier, whose current research concerns the impact of the economic crisis on public welfare provisions in different European countries. (Like Mayer,
Palier is associated with the Center for European Studies at Sciences Po).

In contrast to our other partner institutions, the Max-Planck Institute in Cologne is a research institute with a relatively coherent agenda. The institute has a long-standing commitment to comparative political economy research, and a reputation for training excellent graduate students and supporting young European scholars working in this area. Under the current co-directors, Wolfgang Streeck and Jens Beckert, the Max-Planck Institute has developed an overall agenda that focuses on the concerns of economic sociology and this makes partnering with Max-Planck particularly attractive to us, for economic sociology is less well represented at the other institutions in the proposed network. (The partnership with the Max-Planck Institute is also natural for us because Pontusson is a member of its Scientific Advisory Board). Among other things, we are keen to connect with the European research network on current changes in the regulation of financial markets that the Max-Planck Institute has recent launched, under the leadership of Renate Mayntz (former director of the institute, now a senior researcher).

Promoting graduate-student exchange among these core institutions will be an important component of the network that we propose to build. We also want to launch an outreach program for students in under-resourced graduate programs in the EU and its neighborhood. As detailed below, a large part of the budget for the third year will be devoted to this effort. Briefly, we have in mind a program that would bring ten or so students from under-resourced graduate programs to Princeton for two or three days prior to the conference that we are planning to hold at Princeton in the third year. With the help of Princeton graduate students and other faculty, we would provide an intensive “short-course,” introducing some of the basic ideas that animate the research encompassed by our network as well as some of the methodological issues involved in this research, and the course participants would then attend the conference as well. This outreach program would serve not only to disseminate some of the scholarly output of our core network, but also to create a broader network of young scholars who might help Princeton faculty, graduate students and undergraduates in their own research abroad.