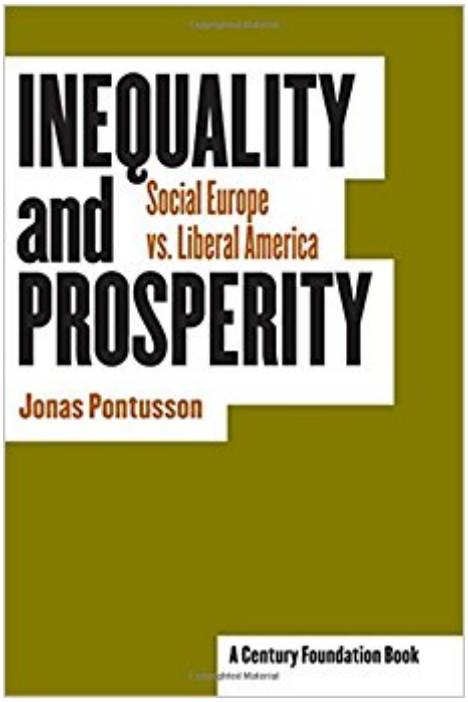
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Inequality And Prosperity: Social Europe Vs. Liberal America



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Synopsis

What are the relative merits of the American and European socioeconomic systems? Long-standing debates have heated up in recent years with the expansion of the European Union and increasingly sharp political and cultural differences between the United States and Europe. In Inequality and Prosperity, Jonas Pontusson provides a comparative overview of the two major models of labor markets and welfare systems in the advanced industrial world: the "liberal capitalist" system of the United States and Britain and the "social market" capitalism of northern Europe. These two models balance concerns of efficiency and equity in fundamentally different ways. In the 1990s the much-heralded forces of globalization (together with demographic changes and attendant political pressures) seemed to threaten the very existence of the social-market economies of Europe. Were the social compacts of Sweden and Germany outmoded? Would varieties of capitalism remain possible, or were labor-market and social-welfare arrangements converging on the U.S. norm? Pontusson opposes the notion of inevitable convergence: he believes that social-market economies can survive and indeed flourish in the contemporary world economy. He bases his argument on an enormous amount of highly specialized research on eighteen countries, using national-level data for the last thirty years. Among the areas he explores are labor-market dynamics, income distribution, employment performance, wage bargaining, firm-level performance, and the changing possibilities for the welfare state.

Book Information

Series: Cornell Studies in Political Economy
Paperback: 256 pages
Publisher: Cornell University Press; 1 edition (December 15, 2005)
Language: English
ISBN-10: 0801489709
ISBN-13: 978-0801489709
Product Dimensions: 7.1 x 0.6 x 9.3 inches
Shipping Weight: 14.1 ounces (View shipping rates and policies)
Average Customer Review: 5.0 out of 5 stars 3 customer reviews
Best Sellers Rank: #515,146 in Books (See Top 100 in Books) #145 inÃ Â Books > Business & Money > Economics > Income Inequality #370 inÃ Â Books > Textbooks > Business & Finance > Economics > Macroeconomics #671 inÃ Â Books > Politics & Social Sciences > Politics & Government > Public Affairs & Policy > Social Policy

Customer Reviews

"Jonas Pontusson’s new book rates with the finest work in comparative political economy. He tackles the old question of the presumed trade-off between equality and economic growth with fresh ideas and a mass of data and compellingly demonstrates that the institutions of northern European social market economies can produce employment and growth without the inequality characteristic of Anglo-American liberal market economies."Ã¢â ¬â ¢John Stephens, Gerhard E. Lenski Professor of Political Science and Sociology, University of North Carolina"Jonas Pontusson makes a consistent and convincing argument against conventional wisdom that there is always a trade-off between equity and efficiency, showing that liberal market and social market economies face different challenges and must find different solutions to their problems. Most significant, however, he makes a very strong case that social market economies have a great many advantages over liberal market economies."Ã¢â ¬â ¢Vivien A. Schmidt, Jean Monnet Professor of European Integration, Boston University

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This is a terrific book, filled with relevant information and skilled analysis. A number of terms have been used to describe economies that mix capitalist with socialist features, e.g., mixed economy, welfare state, social democracy, Third Way, market socialism, social market economy. Jonas Pontusson in this book, Inequality and Prosperity, delineates two types of mixed economies and names them Social Market Economies (SMEs) and Liberal Market Economies (LMEs). His analysis and comparisons of these types is extremely useful for understanding the differences in mixed economies. (Nordic SMEs = Denmark, Finland, Norway, Sweden; Continental SMEs = Austria, Belgium, Germany, Netherlands, Switzerland; LMEs = Australia, Canada, Ireland, New Zealand, UK, US. Other countries are not categorized.)"The SMEs are distinguished by densely organized business communities...coordinated business. Second, they are distinguished by strong unions and by highly institutionalized bargaining systems. Third, the social market economies are distinguished by extensive public provision of social welfare and employment protection. In the SMEs, worker

participation in management decision making is prescribed by law...institutionalized economy-wide bargaining between unions and employers is a distinctive feature of the SMEs. Relative to the continental SMEs, the Nordic SMEs are distinguished by higher levels of union density, more universalistic welfare states, and greater reliance on the public sector (services) in the provision of social welfare." (p17)Pontusson shows that SMEs are clearly superior in terms of more equitable income distribution and that economic performance is not inferior to the LMEs. The conventional comparison of unemployment rates is flawed because it treats the EU as a proxy for "Social Europe" (SMEs). Also, in some comparisons, the exceptional circumstances of German unification need to be taken into account. The growth of civilian employment is lower in SMEs. However, Pontusson argues that this is due to higher growth in the LME labor force, larger youth cohorts, more immigration, more female participation, and smaller decreases in labor force participation, not to different social policies.Many people tend to lump together all countries that have any social welfare. Pontusson demonstrates that this does not make sense. Social democracy is qualitatively different from liberal democracy and the importance and role of unions is one of the important factors in this difference.Midwest Independent Research, educational websites. Social democracy, mwir-socialdemocracy.blogspot. There is a book list here.

I’m satisfying with the contents of this book. This deals with some topics about "Political Economy

Subtitled Social Europe vs. Liberal America, this is an attempt to differentiate between social democracy and market capitalism, peculiarly termed liberal, in favor of the former. Pontusson contradicts himself from the start saying that conservative ideology has become predominant since 1970 while social government action has been surprising resilient. Where has he been, or has political control changed since he wrote? He’s right to say that zero cost solutions have been ineffectual but more so have been the massive debt funded and misdirected social spending programs. The US is rich only in terms of government share of GDP, contradicted by the tabulations of disposable income. If per capita share of national debt is taken as seriously as deserved we are poor indeed. He omits the customary complaint of social democrats that we are under taxed. Clearly, he knows better.He thinks that differences in approaches to social and economic policy are a driver of economic performance. Focus is on an assumed trade-off between growth and economic efficiency and social equality. He studies the roles of unions and worker representation, of banks and shareholders, and on skills, training and education as well as on the measurement of fiscal inputs and outputs and social and economic outcomes.To identify three core features of the "social

market economy": structures of corporate finance and governance, national level institutionalized collective bargaining, and extensive public social provision. There is a mass of statistical correlations in the form of scatter-plots to test a series of hypotheses about these relationships. My impression is that the statistical approach to these issues is only vaguely informative. There is too much dynamism and too many exogenous factors for results to be more than temporarily valid.To paraphrase the discussion of issues: first, the issue of income and earning distributions, second, is comparing employment performance in terms of unemployment rates and job growth, third, wage-bargaining, and fourth is government participation in corporate governance, job security, training and skills. These issues are institutionally linked in social market economies.Pontusson has the US devoting 14% GDP (2001) to social programs. Clearly there are major omissions. Where is all the money going? It's not to the military as often conveniently claimed. He fails to tell us which programs are included/excluded from his category of social spending which tends to reduce credibility of the book as a whole. Does he consider private spending as well as government? Americans are notably generous in foreign emergencies. Are safety net programs considered social spending or is it only welfare? As much as Congress will allow of QE money is diverted to temporary social measures, like the much ballyhood extension of unemployment benefits.The analysis centers on earned income inequality rather than consumption. Measuring consumption would shuffle the analysis of which quintile is which. After all it's raising the consumption level of the poor that a socialist economy is about, or should be. Issues considered include labor, wages and unions related to Gini index equality in the various nations. Correlations are all weak with difficulty distinguishing LMEs, SMEs, CMEs. In fact it would seem that Germany and the US are wrongly categorized as SME and LME respectively. The scatter plots show a wide scattering, confirming weak correlation of the tabular data. While P's graphs show hollowing of the middle, the syndrome would be exaggerated under a consumption measure as both extremes are gaining at the expense of the middle. An omitted issue, probably more significant than those considered, is the effect of national debt. P limits comment to blithely stating that he doesn't see a tipping point. We can be sure that, overriding all of P's later solutions, will be a continued printing of money.We should be asking why European SMEs get so much more social value for their money than we do in the US as we spend so much more money on social programming. Rather than difference in social spending it would seem that success is more attributable to the European apprenticeship educational system as well as to defined cost versus defined benefit programming. The text constitutes a good discussion and data research backing an interesting, if not very useful, taxonomy. It categorizes "liberal market economies" and "social market economies," or LMEs and SMEs. It's bad terminology, emphasizing

economy over the much more significant political activity, while labeling capitalism as ÃƒÂ¢Ã â ¬Ã Å“liberalÃƒÂ¢Ã â ¬Ã Â• has been out of fashion for 150 years. Divisions are somewhat arbitrary. Distinctions are too vague to be useful, especially as many nations have shifted from one category to the other and will again. Measured success or failure varies wildly with time. Tabulations show cross-national differences for 1980 and 2001. We can be sure of a shift since then. Further obfuscating the issue is a third category, ÃƒÂ¢Ã â ¬Ã Å“coordinated market economies,ÃƒÂ¢Ã â ¬Ã Â• or CMEs, based on the work of economist David Soskice. P looks most favorably on the Nordic SMEs.Omissions include notably Japan. I think that contrasting politics and economy of Singapore with the USA would be sufficient to illustrate exactly the opposite of the books thesis. The tendency of socialist economies to revert to extremes is also not considered as Africa and Latin America are ignored. The only one of the PIIGS considered is Ireland, an outlier on P's graphs. Spanish and Portuguese people understand, better than Pontusson, where their recent social spending policies have led them. Also the role of external financing from EU CB and IMF, as in the case of Greece, is unaccountably ignored. In the case of Norway he mentions oil as though that's just incidental to more significant social policy. He ignores sovereign wealth funding as a measure of success. More significant than any of this selective economic analysis is the reality of US emulation of Soviet policy in a slow slide towards economic oblivion.Some of it seems deliberately obtuse. A graph is not necessarily as labeled, it sometimes means Gini ratio variation with respect to the two variables. Use of 90-10 ratios switching to 60-40 for gender inequality is another obfuscation. The book sadly lacks a glossary.Of course socialism is good for employment. The Soviet Union always had full employment, easy to accomplish by edict as long as wages are a secondary consideration. It's laughable to say that ÃƒÂ¢Ã â ¬Ã Å“big governmentÃƒÂ¢Ã â ¬Ã Â• is not useful as a distinguishing factor for this set of public policy problems. It's akin to saying that ÃƒÂ¢Ã â ¬Ã Å“socialismÃƒÂ¢Ã â ¬Ã Â• is not useful in the study of socialism.The best part of the book is in the later chapters where P discontinues the statistical approach and drops the term ÃƒÂ¢Ã â ¬Ã Å“social market economyÃƒÂ¢Ã â ¬Ã Â• in favor the more realistic ÃƒÂ¢Ã â ¬Ã Å“welfare state.ÃƒÂ¢Ã â ¬Ã Â• He writes that welfare state largesse impacts distribution of income, a subtle shift from economics to an ethical argument, the only one that works for socialism, which is characterized by good ethics and bad economics. The last areas of analysis, without statistics, look first at levels of social provision and their consequences on income redistribution and economic growth and then discuss how recent trends in retrenchment in social spending have occurred and what effects those trends have had on redistribution. In conclusion P admits to a trade-off between equality and efficiency and that broad measures of inequality tell us

little. He advocates wage solidarity, active labor market policy, pubic investment in education, family policy, changes in corporate financing rules and universalism in public social welfare in an effort to mitigate the unequal distribution of capitalism. As though an afterthought he adds political mobilization of workers. ÃƒÂ¢Ã â ¬Ã Å“Workers of the world unite!ÃƒÂ¢Ã â ¬Ã Â•Pontusson honestly admits to the vagaries of evidence to support conclusions about what is "better" in terms of both social provisions and economic performance. His proposed progressive reforms to mitigate the inequalities of capitalism are basically more of the refrain ÃƒÂ¢Ã â ¬Ã Å“it's not working, so let's do more.ÃƒÂ¢Ã â ¬Ã Â• Currently, contravening P's professed perception, there is strong backing for this point of view from the Obama-Sanders wing of the controlling Democratic party. Rather than the intended proving that the most generous social welfare states perform best. The book tends to prove that the mis-categorized, most generous USA performs worst. Most generous, of course, is in terms of social spending amounts, not receipts by the poor.Reading between the lines one can can infer that Pontusson doesn't really believe what he advocates as the superiority of social democracy, read socialism. With data generally dated from around 2001, I wonder if he has changed his mind about where the US fits after observing the leftward swing of the Obama administration.This review concentrates on the negatives and omissions, but the book is much better than the more common egalitarian anti-capitalist clap-trap diverting government blame to the evil rich and to corporations.

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