

Why do you deserve to be at UC Berkeley?

- A. I was admitted on my merits because have academic talent, worked hard to succeed, and I met the admissions requirements.
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- C. I am talented, worked hard, met the requirements and I was lucky

Commodification of Money

http://www.newyorker.com/reporting/2010/11/29/101129fa_fact_cassidy#ixzz1DK0l6oAW



For years, the most profitable industry in America has been one that doesn't design, build, or sell a single tangible thing.

Making Money!

But that's not ALL banks are doing: They're creating really, really fictitious commodities

- Banks are in competition for profits
- They need to innovate
- Because there's a market for money, banks are trading abstractions—bets... **such as the price of a stock or the level of an exchange rate**
- big banks invent new financial products that they can sell but that their competitors haven't thought of
 - Pollution rights
 - Credit Default Swaps: A bet on whether a bond will default

Trading in abstractions: socially useless activity

- Nothing of real worth is generated
- Finance extracts “rents” from the real economy



But it's a Prisoners Dilemma—leading to a financial crisis

		Bank Row	
		Banks regulated To reduce competition for profit	Unregulated Banks Compete
Bank Column	Cooperate	Banks fund wealth-creating activity	Noone wants to be a sucker—Banks need to make a profit by competing
	Defect	No bank wants to be a sucker—they lose if they JUST fund wealth creation	Banks compete for revenue and profit; invent new products; bad for all—run on banks

Creating fictitious commodities leads to the encroachment of the Market on **Life Itself**

- Social Darwinist view of society
- devalues what we value
- The market encroaches on

All of life....takes over
EVERYTHING.....



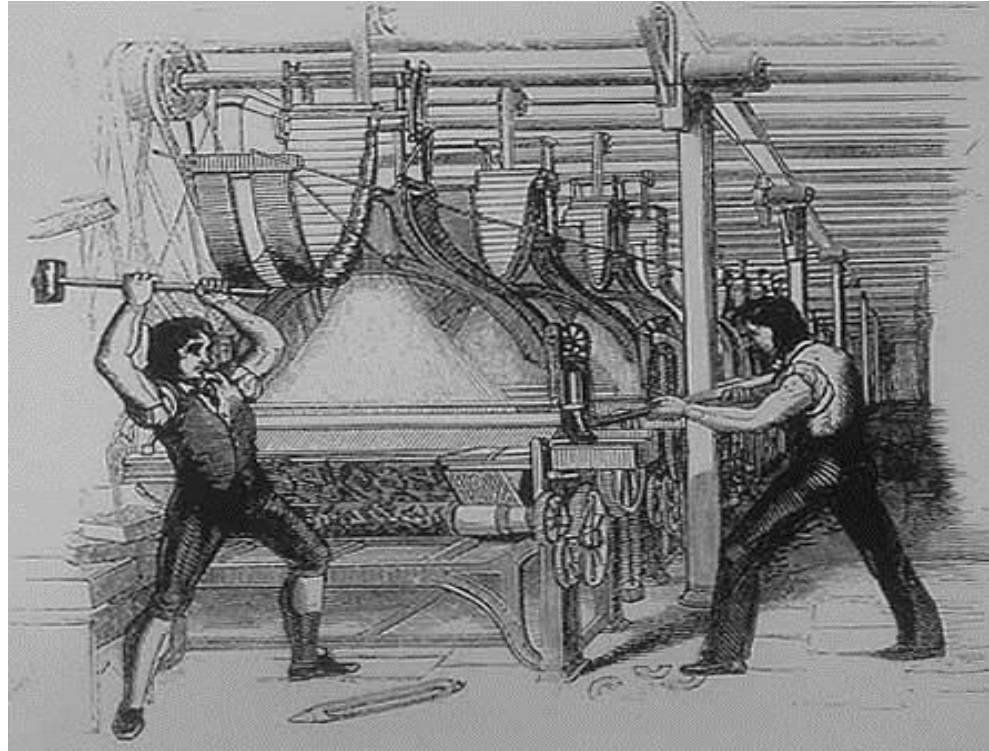
The Result? Society is now embedded in the Market Economy

The Market

Society



The Double Movement back then: People fought back against the Industrial Revolution



People had to fight back or it would have been the destruction of Human Society!

Double Movement Today: Anti Neo-liberalism and Anti-Globalization



Sum: Liberal theory and Polanyi's critique

**Smith, Ricardo, Hayek,
Friedman, Olsen, Coase**

1. "natural" Rational (self-interested, profit-seeking) **individual** +
2. Natural propensity to trade (exchange) → spontaneous markets
3. Freedom= removal of political power....it is a barrier to natural exchange)

Polanyi

- **No** ...humans are social beings
- **No** Spontaneous markets. The "Natural" human tendency is to preserve humanity, society, and nature
- **NO**: markets had to be **created** by political power (state)
- So.....what are freedom and rationality in a market society?

Sum: Liberal theory and Polanyi's critique

Smith, Ricardo, Hayek, Friedman, Olsen, Coase

1. Price mechanism
(information about value)
→
2. Innovation + specialization
(division of labor)
3. Comparative advantage
→
4. Efficiency →
5. Growth →
6. Everyone is better off

Polanyi

- Artificial Commodification of land, labor, capital (creation of property "rights") → destruction of society (community) →
- Some are better off (market winners), more are worse off (market losers) →
- Movements to protect society from markets

Institutional Economics: How free are we really?

- questions state-market separation, role of the individual, market competition
- Lindbloom
 - – hierarchies everywhere!
 - State is biggest market participant!

The political economy of equality

Political Liberalism and
Distributive Justice

What do we deserve?

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What is “justice” in the allocation of resources?

1. Justice is the exercise of freedom—within the rule of law-- in the production of distribution of resources
2. Justice is equality of opportunity in the distribution of resources.
3. Justice requires the principle of redistribution to bring about equal rights to resources

Do you believe that human rights are natural and inalienable?

A. Yes

B. No

Political Economy of Freedom



Political Economy of Equality

POWER, Purpose

The Government

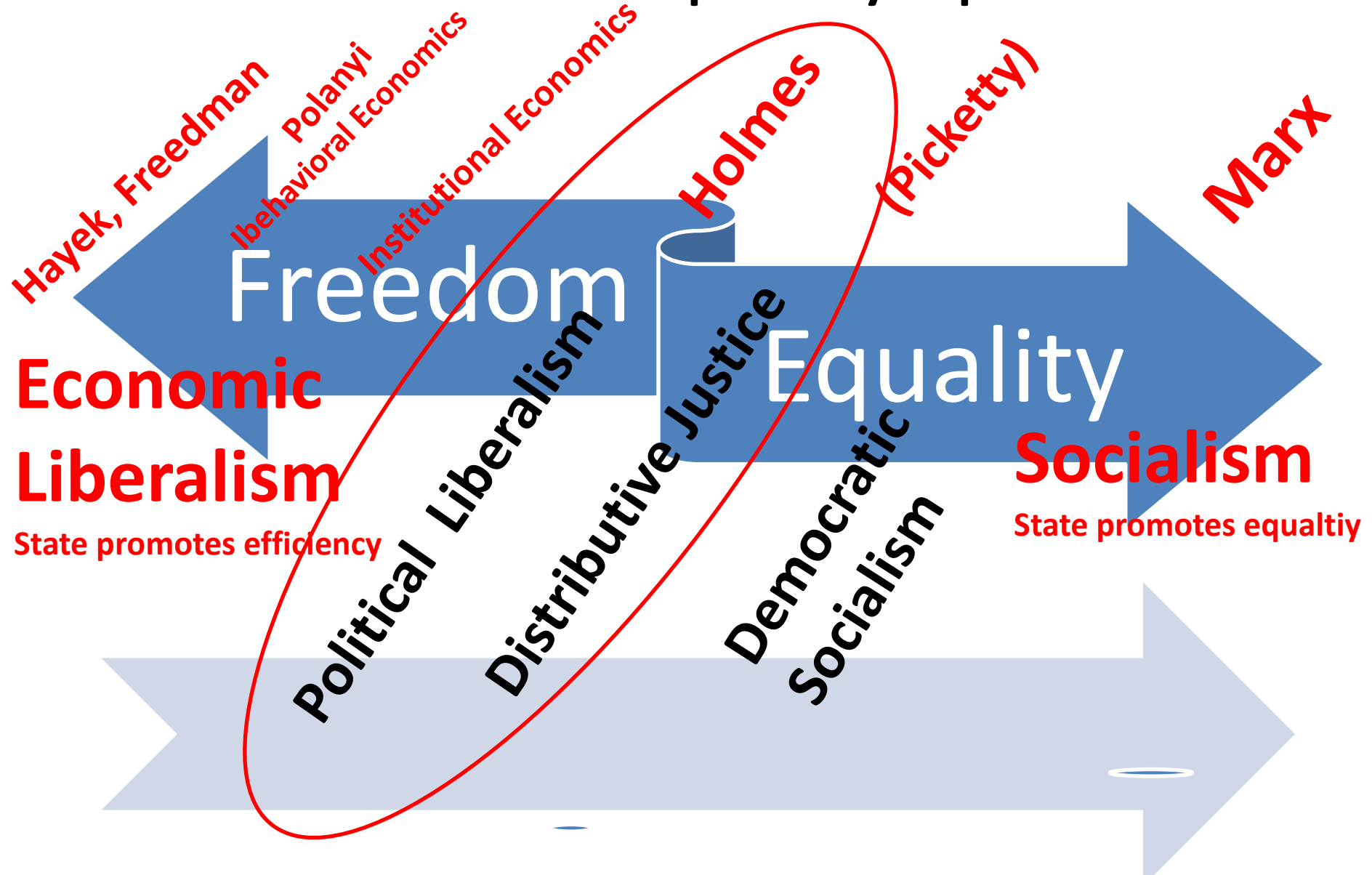
Equality

AND

Free Market

WEALTH

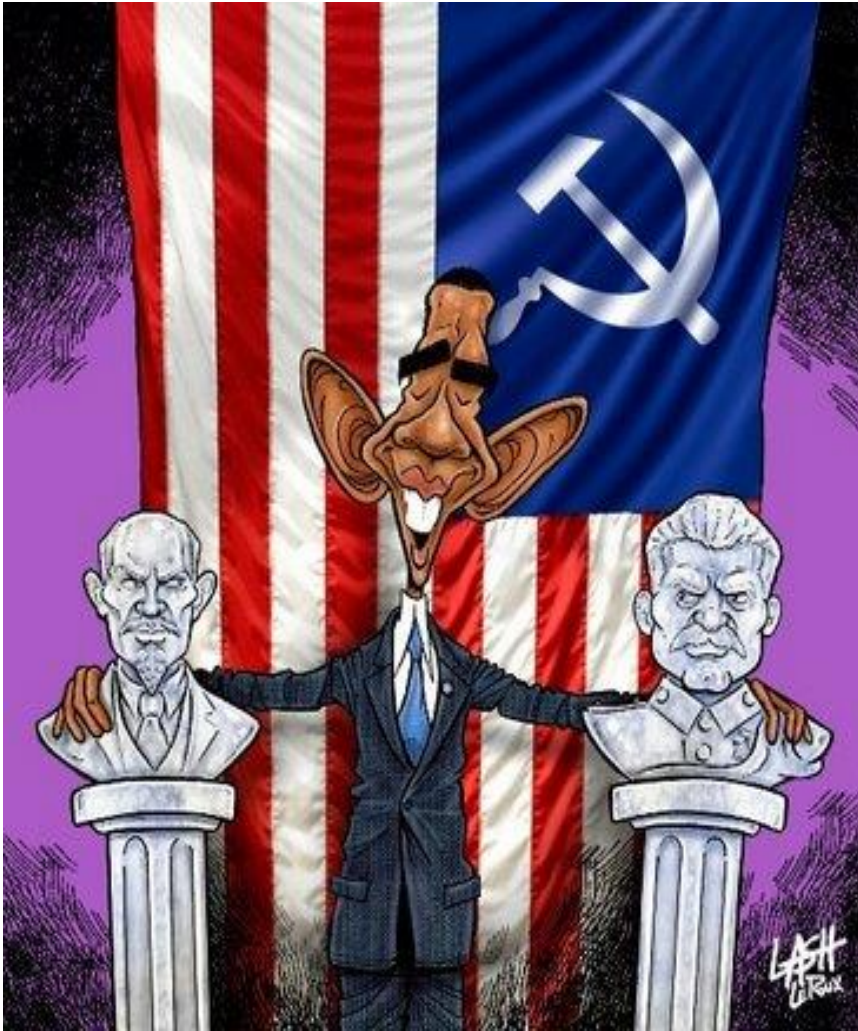
The Freedom-Equality Spectrum



Political Liberals: need for government intervention in the market

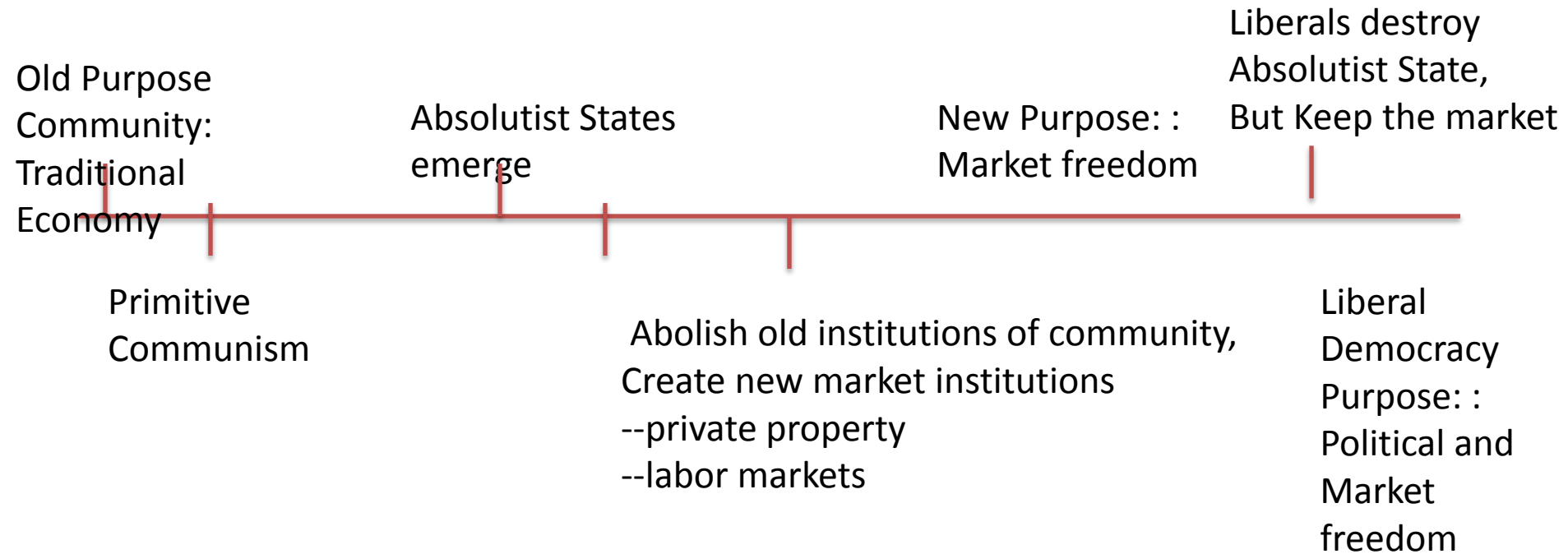


Confusion between Political Liberalism and Socialism



- Great differences over tolerance of inequality
- Great differences over degree of govt. intervention to redress inequality
- Great differences over market allocation of wealth

Historical evolution of Liberalism



Historical evolution of Political Liberalism

- Core commitment: Freedom from oppressive governments and equal rights for all
- Govt. role: submit to the “rule of law” and protect market freedom and equal rights
- Over time: recognition that market impinged on equal rights.....now saw government’s role as the protection of freedom and equal rights—wanted stronger government to protect citizens who “lose” in the market and thereby guard equal rights
- The four freedoms that many liberals say government should protect: freedom of speech, freedom of worship, Freedom FROM want, Freedom FROM fear

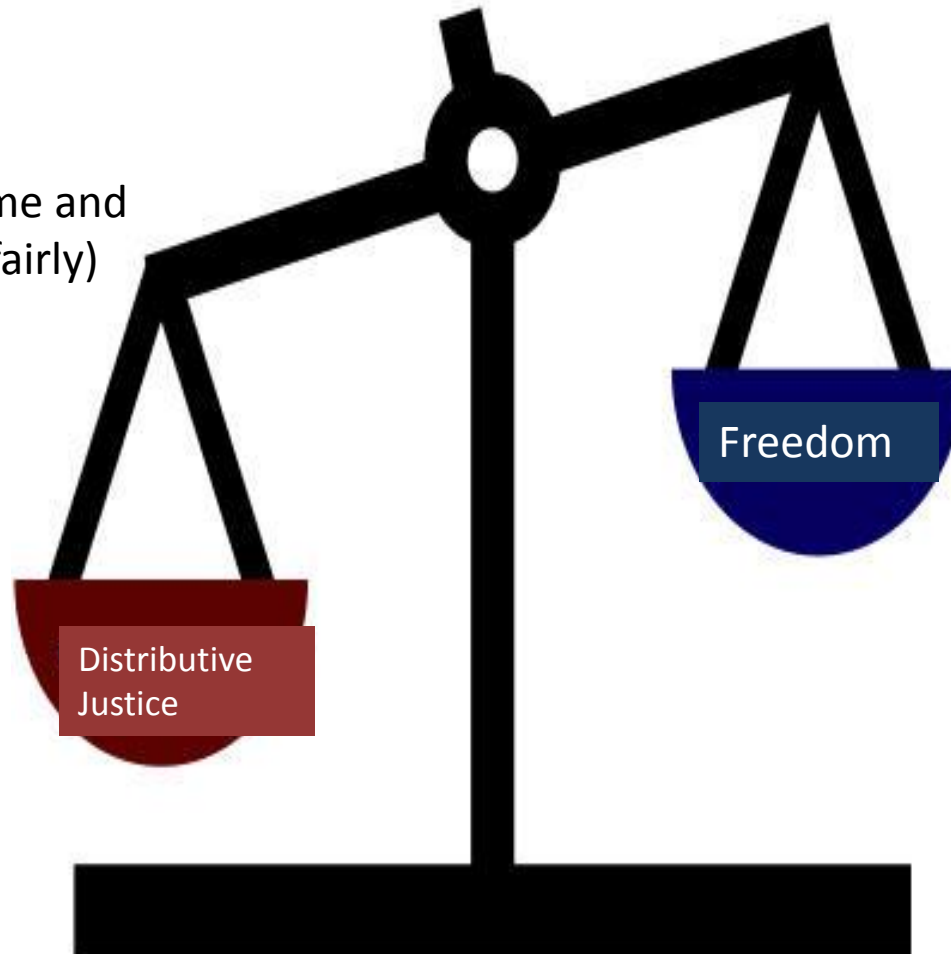
Social equality and Freedom from Want and Fear

"the care of the poor is incumbent on the whole of society"



Political Liberalism addresses the problem of economic inequality: Distributive Justice Theories

How should income and Wealth be justly (fairly) Distributed?



How should income and wealth be fairly distributed?





\$25 million....Is it Fair?



How should Income and wealth be fairly distributed?

- Justice is Blind. It applies to all equally.
- Economic Liberals: The market system is the most just
- Economic AND Political Liberals: Equality of opportunity is Necessary. (equity—fairness—based on merit)
- Some Political liberals ask: is it enough? (level playing field)
- Others ask: Does a level playing field still leave room for arbitrary factors that create inequality?
- They argue for the Redistributive Principle

