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.

B. I know lots of people met the admissions requirements and didn’t get in, but I exceeded the requirements.

C. I am talented, worked hard, met the requirements and I was lucky
Commodification of Money

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

<table>
<thead>
<tr>
<th>Bank Row</th>
<th>Banks regulated To reduce competition for profit</th>
<th>Unregulated Banks Compete</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperate</td>
<td>Banks fund wealth-Creating activity</td>
<td>Noone wants To be a sucker—Banks need to make a profit by competing</td>
</tr>
<tr>
<td>Defect</td>
<td>No bank wants to Be a sucker—they lose if they JUST fund wealth creation</td>
<td>Banks compete for revenue and profit; invent new products; bad for all—run on banks</td>
</tr>
</tbody>
</table>
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 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?
Why do you deserve to be at UC Berkeley?

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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

Power, Purpose AND Wealth

The Government
(except to protect
A competitive Market)
and correct for market
failure sometimes

Freedom

Free Market
Political Economy of Equality

POWER, Purpose

The Government

AND

WEALTH

Equality

Free Market
The Freedom-Equality Spectrum

Freedom
- Economic Liberalism (State promotes efficiency)
- Political Liberalism
- Institutional Economics

Equality
- Distributive Justice
- Democratic Socialism
- Socialism (State promotes equality)

Marx
- Hayek, Friedman
- Polanyi
- Behavioral Economics
- Holmes
- (Piketty)
Political Liberals: need for government intervention in the market

- Disagree. They believe that political economy should be more concerned with equality than with freedom.
- They are concerned more with inequality than with freedom in the production and allocation of goods in society.
- Inequality is injustice.
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

- **Old Purpose**
  - Community: Traditional Economy

- **Primitive Communism**
  - Abolish old institutions of community,
    Create new market institutions
  - --private property
  - --labor markets

- **Absolutist States emerge**
- **New Purpose**: Market freedom

- **Liberals destroy Absolutist State, But Keep the market**
  - Liberal Democracy
  - Purpose: Political and Market freedom
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