

PEIS 101

Modern Theories of Political
Economy

Introductions, etc.

- Beverly Crawford
- Kim B. Olsen
- The syllabus is at:
- <http://bev.berkeley.edu>
- Facebook Group: “Political Economy”
- Book: The Political Economy Reader
- Other readings online and also available at Copy Central
- Requirements:

Requirements

- Required attendance at all class sessions
- Come to class on time
- Class participation
- Complete reading for each session before class
- Please....no use of lap tops, iPads, other tablets or smart phones in class...take notes with pen/pencil and paper
- Required subscription to the *Wall Street Journal* or *Financial Times* newspaper
- Assignments: Midterm, Final, Newspaper assignments as part of your participation grade
- First Newspaper Assignment Due Feb. 15.
- Midterm is March 3
- Final Due May 13

At the end of the Semester You will

- **see** the world differently
- **How?** You will look at different and opposing arguments about the relationship between politics and economics
 - 1. How states undermine markets and how markets undermine states
 - 2. The sources of National and global **wealth** and **poverty**
 - 3. why wealth and power seem to be **shifting** from the United States to Asia and other rising economic powers?
 - See how political economy shapes the global physical environment
- **What you will learn:** to figure out what you need to know in order to judge for yourself what the better argument is.

So the separation between politics and economics should not be so great:
Economic changes not only lead to political changes, but they are political changes.

What is Political Economy?

POWER

AND

WEALTH

What is this?



Wealth and Power are Closely related

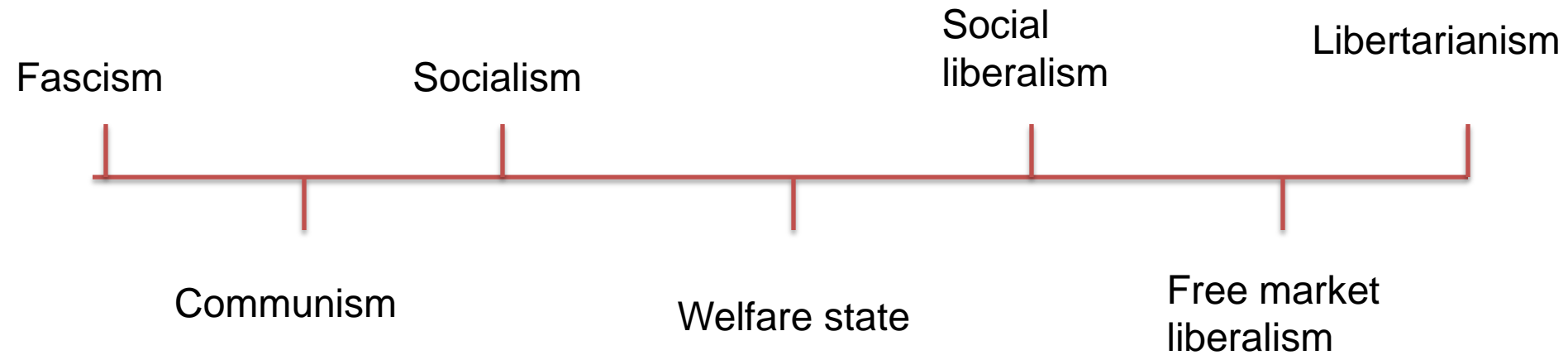


- **But HOW are they related?**

In the decision about how wealth is produced and allocated

- How does that decision get made? What is the basis for that decision?
- What institutions should allocate wealth? (what's an institution?)
- In the 21st Century, Political Economy is about two institutions: Markets and States.
- What kind of state? What kind of market is best?

Relationship between the state and the market



Two institutions: markets and democracies have come to dominate political economy

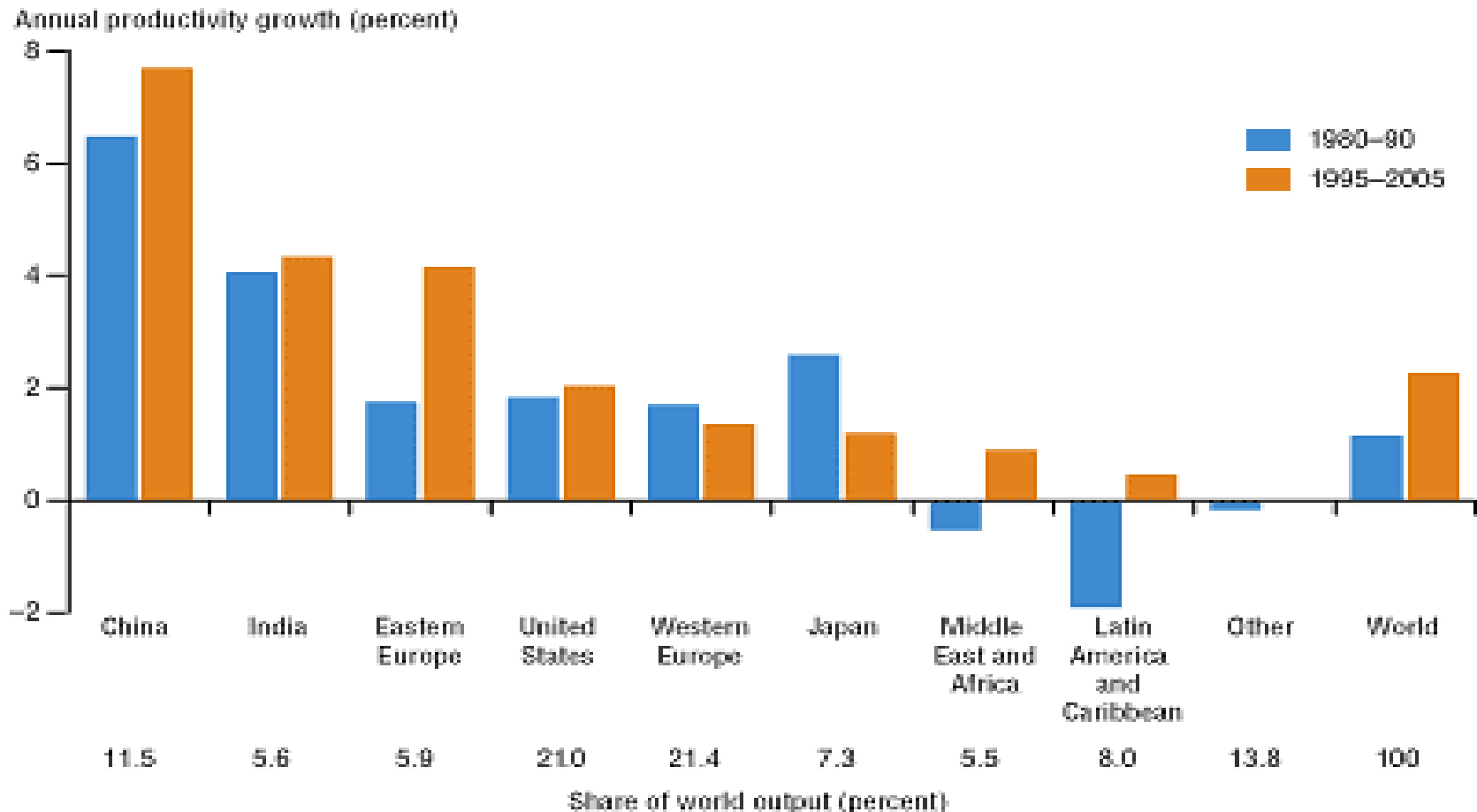


- Markets and democracies (with some modifications and holdouts)
- markets spread wealth
- and democracies disburse power---
- And it all adds up to economic and political freedom

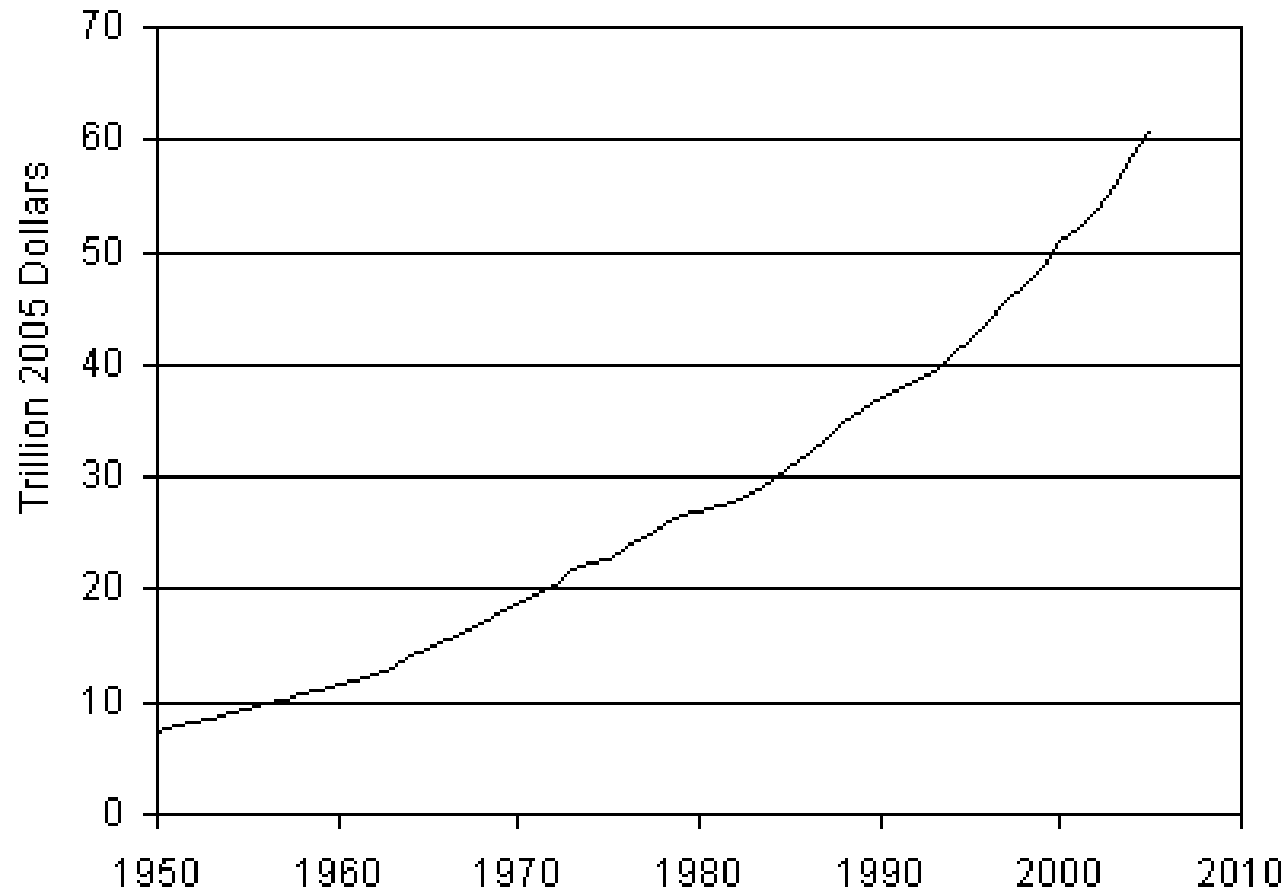
What unites the two institutions?



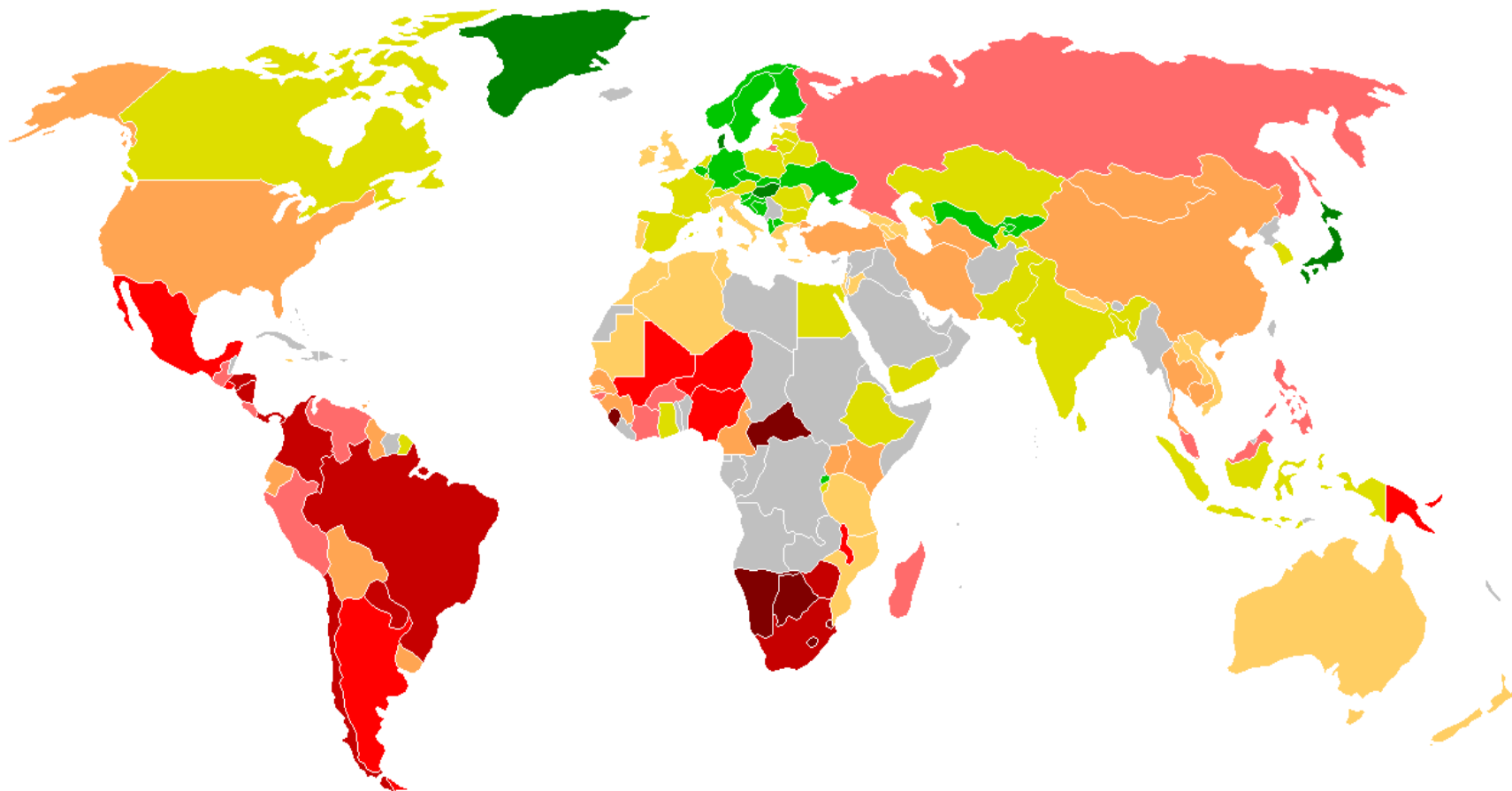
Do Markets and democracy Create wealth for all?













Gross World Product, 1950-2005

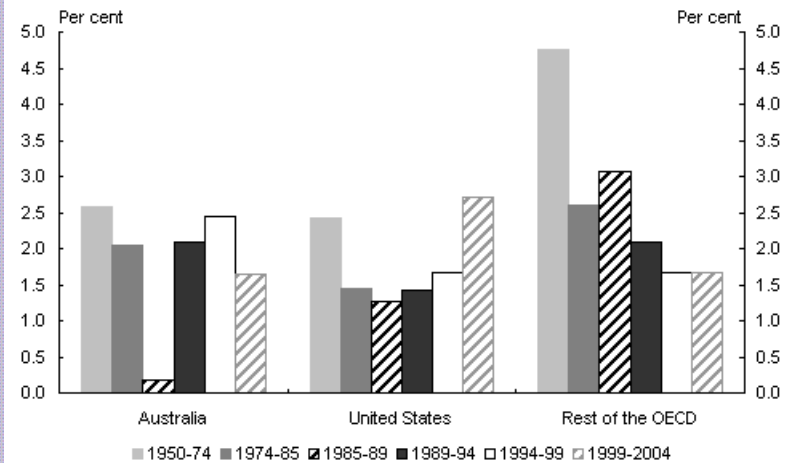
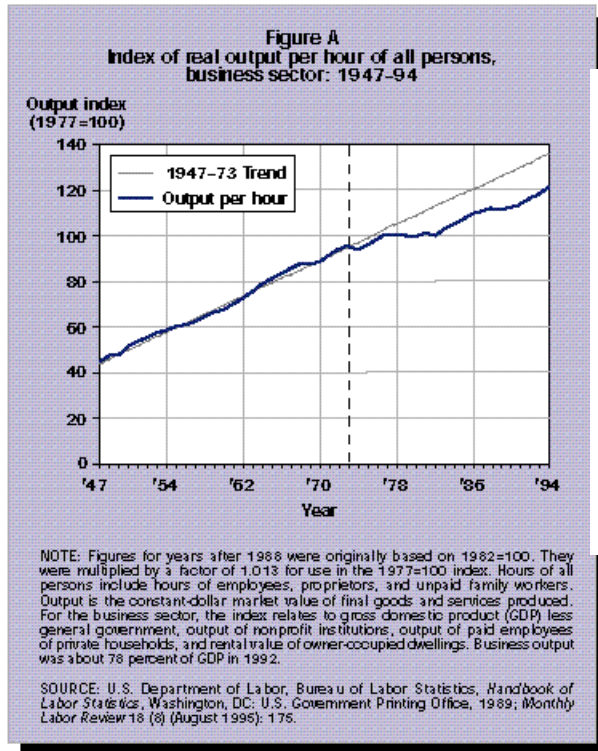


Source: IMF, Worldwatch



Color	Gini coefficient		0,35 - 0,39		0,55 - 0,59
	< 0,25		0,40 - 0,44		> 0,60
	0,25 - 0,29		0,45 - 0,49		NA
	0,30 - 0,34		0,50 - 0,54		

The United States Productivity Growth



Wealth is concentrated

Distribution of Wealth in the U.S., 2001

Top 1% own 33%
Next 4% own 26%
Next 5% own 12%

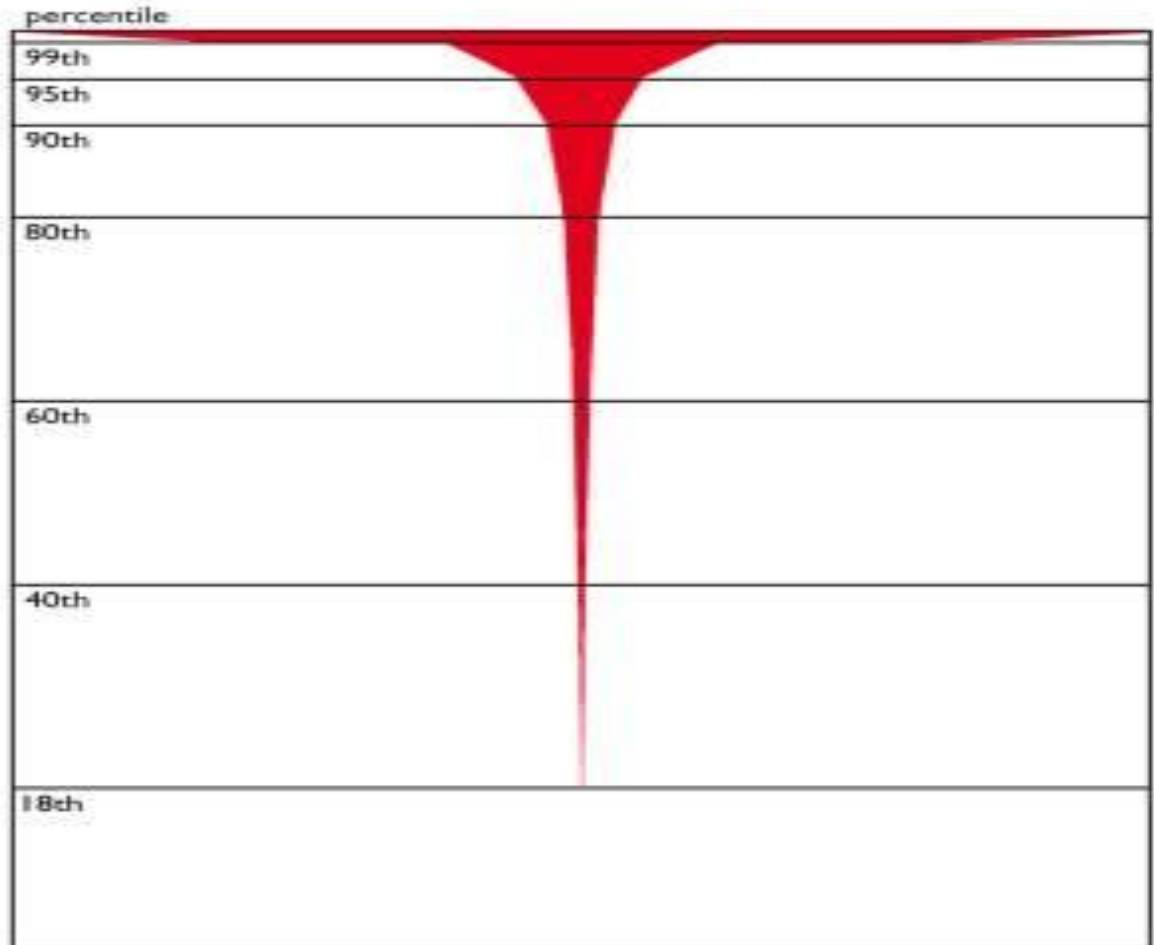
Next 10% own 13%

Next 20% own 11%

Middle 20% own 4%

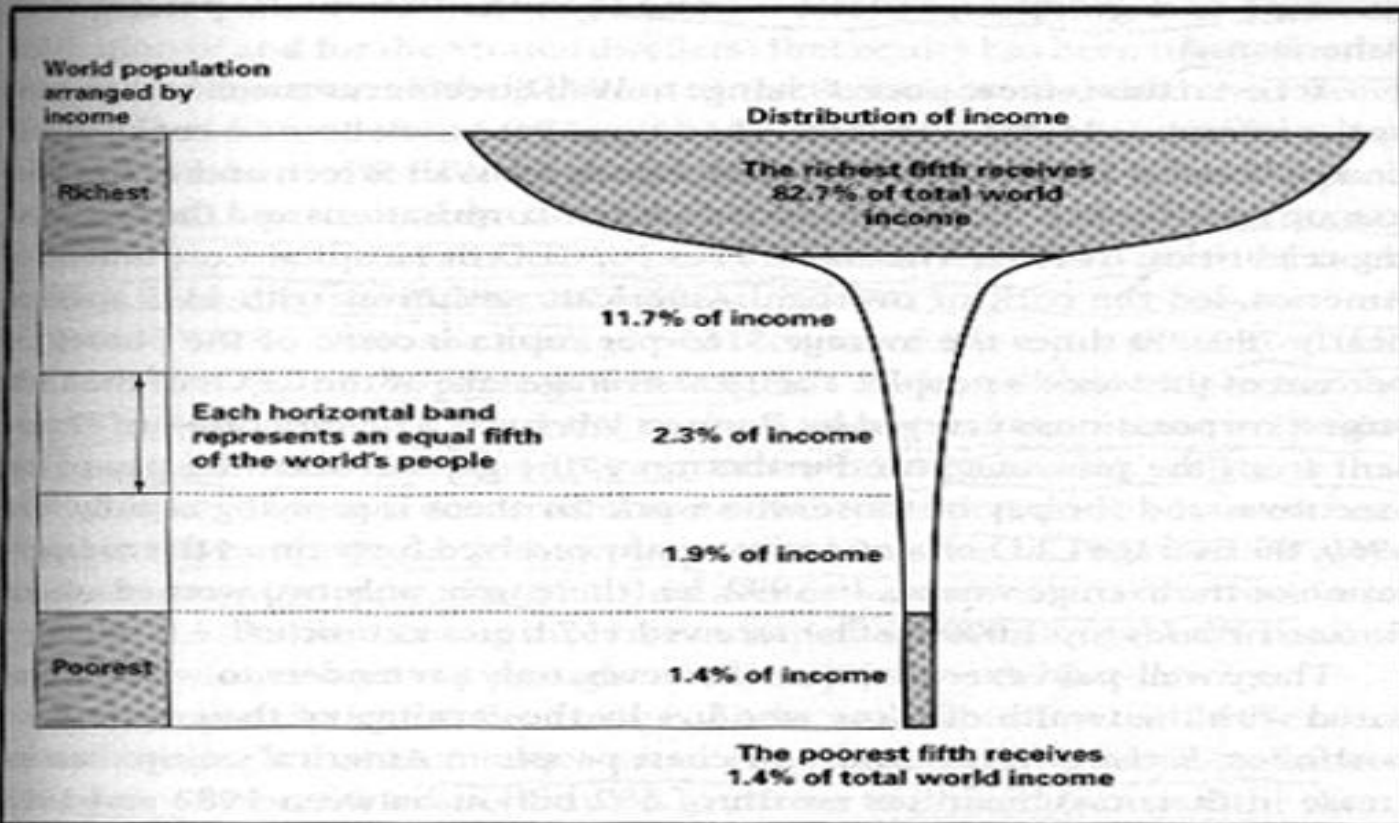
Next 22% own 0.3%

Bottom 18% have zero or negative net worth



Much of the World doesn't fare as well as US workers.....

Figure 7.1: Transition to a Full World



Source: UNDP, *Human Development Report 1992* (New York: Oxford University Press, 1992).

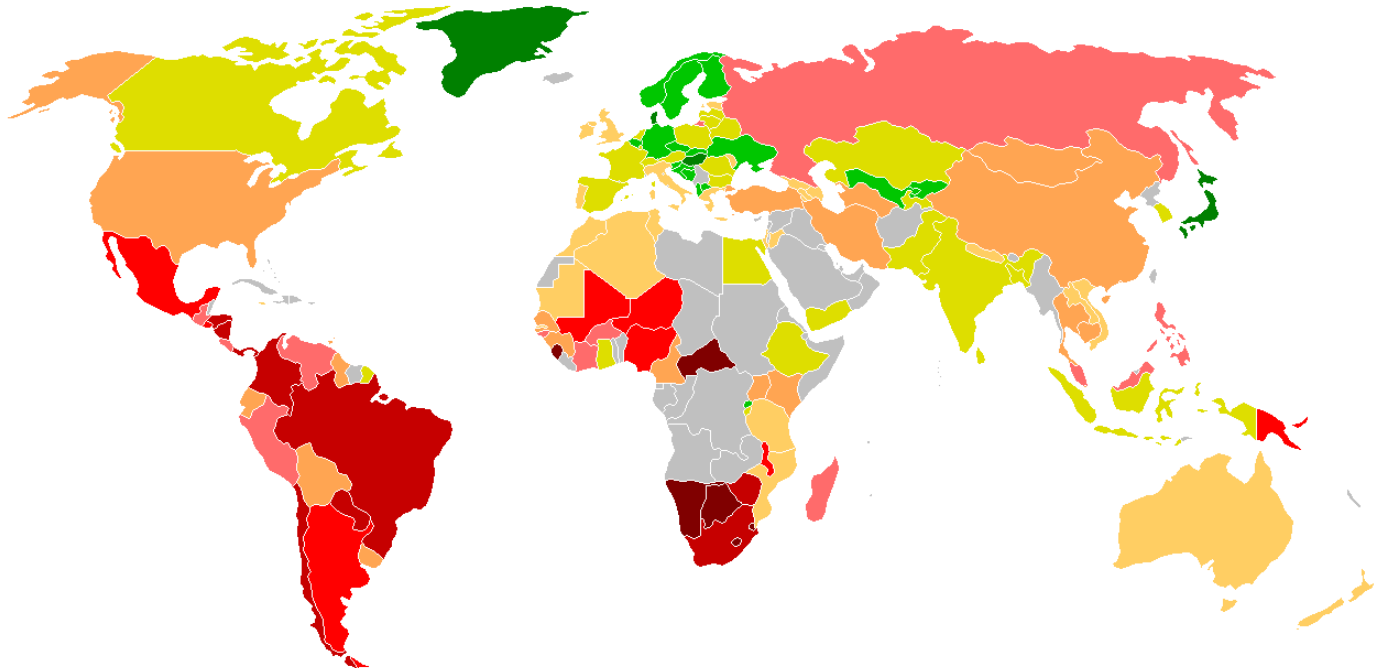
Why? Who cares?











- Is inequality unfair?
- Should states allocate the wealth that the market produces more equally?
- Who cares about global inequality?
- Should anything be done about it?

When the market is perceived as “unfair,” or just too harsh....those hurt turn to government to protect them

- **Markets will never create equality. Should governments allocate resources among citizens equally?**
- **So What is the proper role of government? Should it protect the national community because we are all equal citizens?**
- **Should government try to create social safety nets for “losers?”**
- **Or should governments Leave well enough alone— stay out of the market? Can governments really afford to do that?**

What about global inequality?



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			0,35 - 0,39		0,55 - 0,59
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<http://www.gapminder.org/videos/ted-talks/hans-rosling-ted-2006-debunking-myths-about-the-third-world/>

Another reason for some people to care: countries can be “losers” in the market too. (because markets are based on the idea that freedom of economic choice will create

the most wealth for the most efficient and productive, countries that don't win in the international marketplace will fall behind.

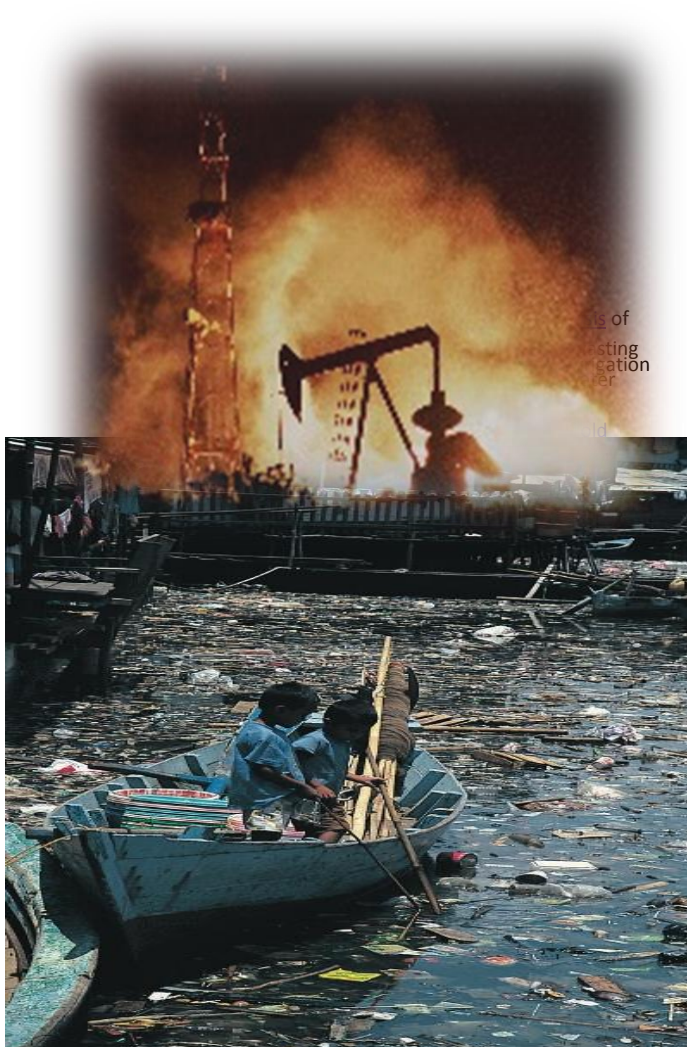
**China surges
ahead
Closing
wealth
And power
gap
With the
West**



So what?

- When your country wins or loses in global competition, Your prospects are affected.
- Are you well-positioned to win in global market competition?
- Should the government intervene when it's citizen's prospects are dim?

Don't Markets Destroy the Environment? Should governments protect us from the freedom to destroy?



Theories of Political Economy provide answers

- But the answers are contradictory!
- They are based on opposing values: freedom, equality, community.
- They are theories about what political economy SHOULD be about.....not necessarily what it IS about.....

The Three Approaches



Community

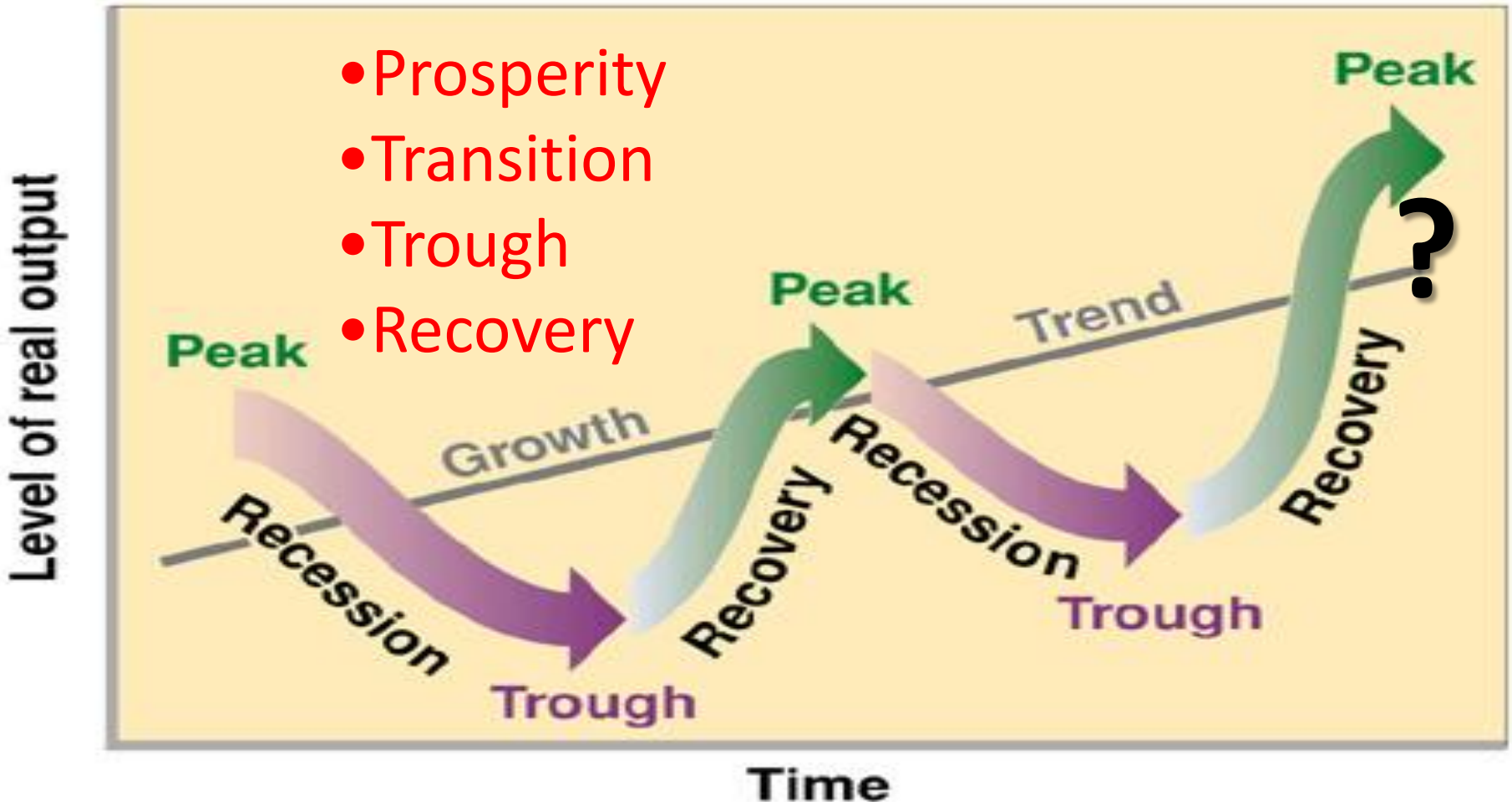
Questions for Session 2

- We will read central texts from Hayek and Friedman, both from the liberal school of thought: which one appeals to you and why?
- Why does Hayek think that planning makes the future more insecure than non-planning?
- Why is Obama called as a “socialist” regarding his Public Health Care Reform? Look for passages in the writing that justify this description.

Should NAFTA be renegotiated because the US isn't benefiting from it?

- **Obama said he'll unilaterally end NAFTA if Canada and Mexico negotiate what is "unfair" to U.S. workers.**
- **So democratic governments are tempted to restrict markets when they fall behind in market competition.....**
- **During the 2008 election campaign, McCain said free trade should remain free and unrestricted—that the government should stay out of the market.**
- **For both, we saw that when the market punishes those who are not creating wealth, political power should bail out the losers.**

Many believe that Markets should go through this cycle without government intervention....



One Reason to care.....

