

The political economy of equality

Political Liberalism and
Distributive Justice

What do we deserve?

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

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

Today's Menu

- Review: Polanyi, Behavioral Economics, Institutional Economics
- Summary: Critique of Economic Liberalism
- Freedom and Equality—The theoretical spectrum
 - Different Purposes of Political Economy,
 - Different Relationship between the State and the Economy
- Political Equality
- Distributive Justice

Review: Economic Liberal theory and Polanyi's

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Review: Behavioral Economics: How Rational are we really?

- Game Theory: the **external** strategic environment
- Behavioral Economics: The **Internal** environment in our brain
 - Our rationality is bounded: “The best is the enemy of the good”
 - Guilt, optimism bias, and “fairness” affect our choices

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!
- Williamson
 - Builds on Coase:
 - Transaction costs
 - Asset specificity
 - Big Firms!



Review: **CRITIQUE** of Econ. Liberal Theory

Key Assumption is the rational individual who wants Freedom:

NO WE ARE IRRATIONAL AND UNFREE... INSTITUTIONS NOT INDIVIDUALS ARE KEY ACTORS....WE LIVE IN HIERARCHIES

voluntary exchange **NO EXCHANGE IS MANIPULATED** with no state interference **NO! STATES ARE KEY ACTORS IN MARKETS**

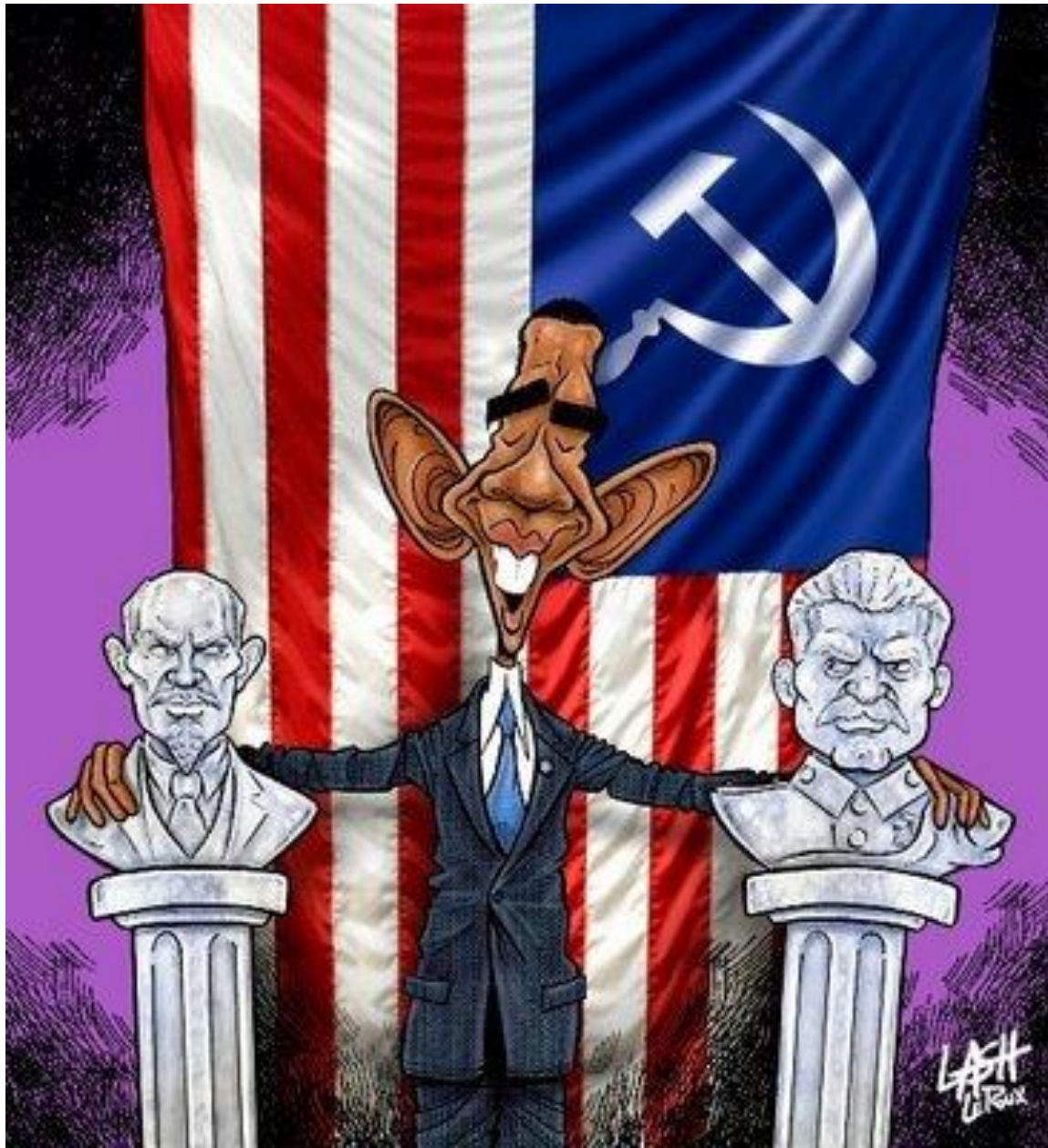
Price Mechanism (information about value+ lowers transaction costs **NO! PRICE DEVALUES**

Competition **NO! winners and losers....FEW FIRMS DOMINATE AND STATE IS DOMINATED BY A FEW FIRMS**

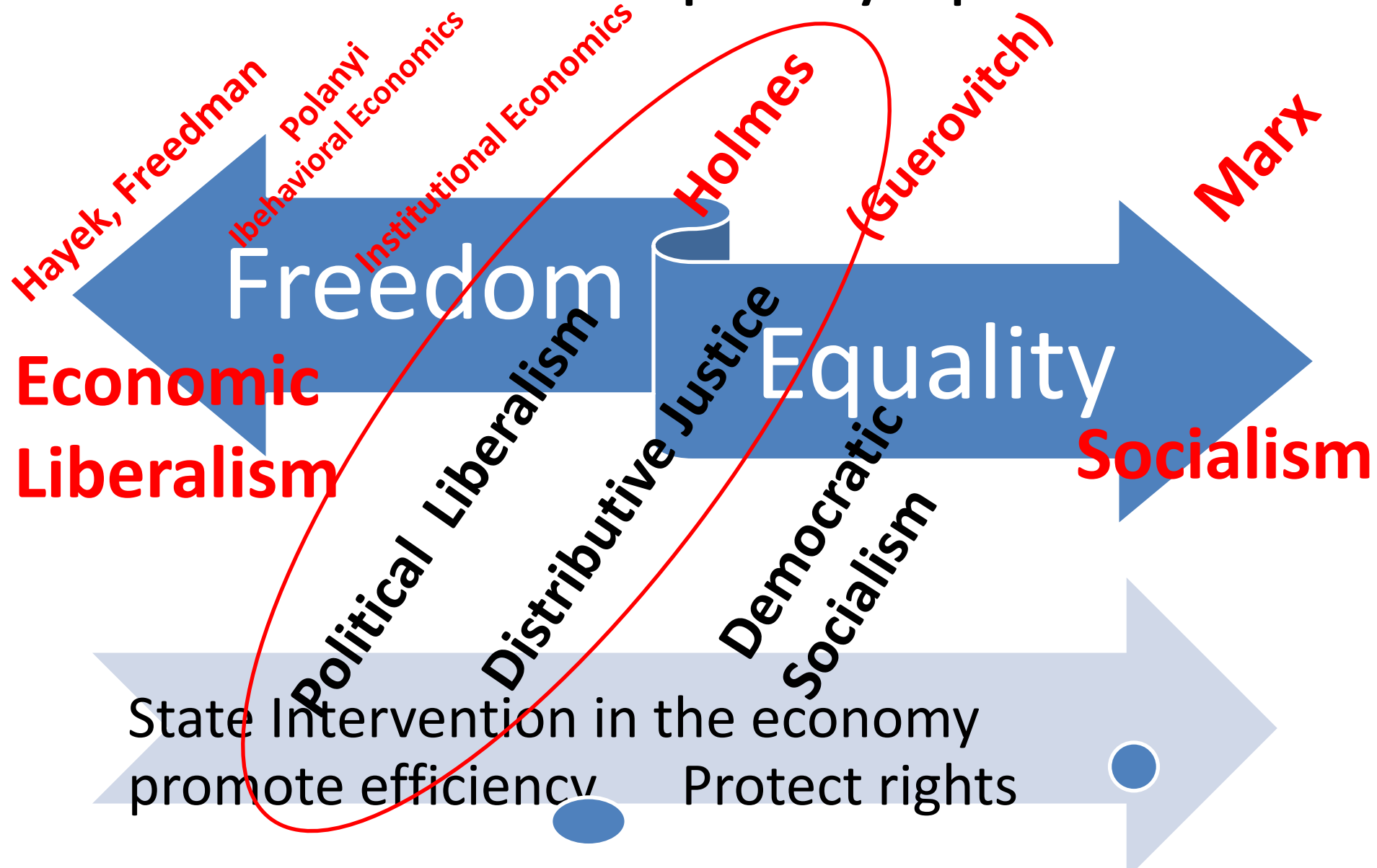
Efficiency → Growth → Better life for all **NO! DOUBLE MOVEMENT!**

Equality as the purpose of political economy





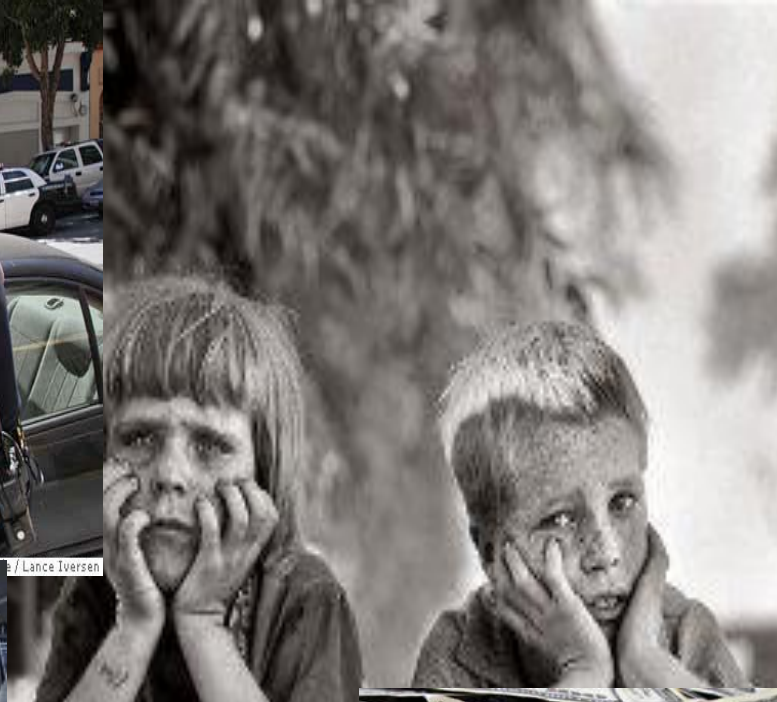
The Freedom-Equality Spectrum



Historical evolution of Political Liberalism

- Core commitment: Freedom
- Historically liberals were activists, fighting for freedom from oppressive governments
- Over time: government's role is to protect freedom and equal rights—more government to protect people and 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

Liberal Discontent with the Market



/ Lance Iversen

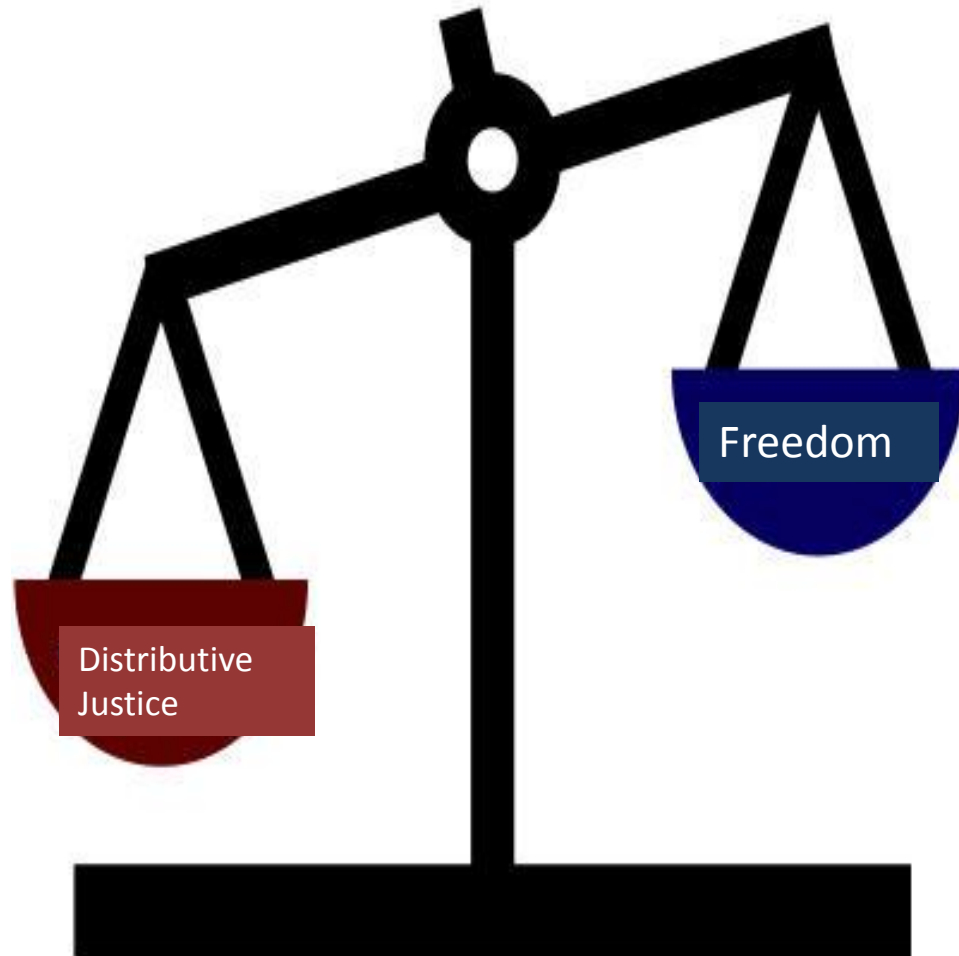
GETTY IMAGES

Social equality and Freedom from Want and Fear

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



Distributive Justice Theories



How should income and wealth be fairly distributed?





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

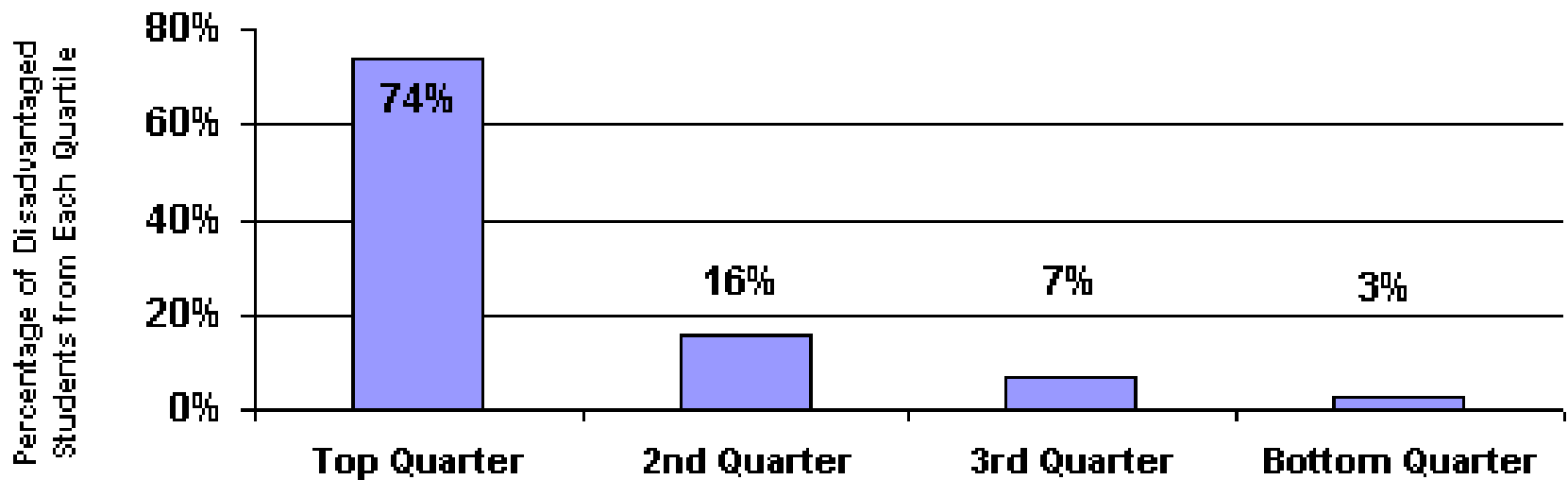


How should Income and wealth be fairly distributed?

- 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



Socioeconomic Status of Students in Selective Colleges



Percentage of Disadvantaged Students Admitted to Selective Colleges
by High School Class

Redistributive Principle



The Market system

- Economy : Market provides entitlements but not what we necessarily deserve

Society

