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 critique

- Smith, Ricardo, Hayek, Olsen, Coase

- Price mechanism (information about value) → Innovation + specialization (division of labor) → Comparative advantage → Efficiency → Growth → Everyone is better off

- Polanyi → Devaluation of nature, humanity, and exchange through Artificial Commodification → destruction of society (community) → • Some are better off (market winners), more are worse off (market losers) → Movements to protect society from markets

- Critique of Polanyi?
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

- 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.
The Freedom-Equality Spectrum

Freedom

Economic Liberalism

Political Liberalism

Distributive Justice

Democratic Socialism

State Intervention in the economy promote efficiency

Equality

Protect rights

Socialism

Marx

Hayek, Friedman

Polanyi

Institutional Economics

Holmes

(Guerovitch)
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

- A liberal cannot ignore the painfully illiberal features of our society. In many places, urban violence makes a mockery of the promise to protect every citizen from physical fear.
- The homeless are deprived of the elementary security a liberal regime owes to all.
- Decaying schools represent a national betrayal of liberalism's pledge to the next generation.
- The steady increase of children living in poverty conflicts rudely with a liberal commitment to equal opportunity.
- The rising costs of litigation have thrown into doubt the principle of equal access to the law.
- Rising campaign expenditures suggest that economic inequality is being converted directly into political inequality, against all liberal norms.
- As the New York Times reports, "Sweeping aside a century-old understanding and overruling two important precedents, a bitterly divided Supreme Court today ruled that the government may not ban political spending by corporations in candidate elections." Will this accelerate the nation's turn toward plutocracy? Have the rules been so easily circumvented in the past that this new ruling will have no effect?
  
  Our question is as follows:
  Money talks: What are the likely impacts of the Supreme Court ruling rolling back limits on corporate and union spending on federal campaigns?

- Black Americans still live to an appalling extent as a stigmatized caste. Infant mortality, poverty, unemployment, school and housing segregation, and reduced access to health care all indicate that social resources are being allocated according to skin color, not along individualistic lines.
Social equality and Freedom from Want and Fear

- "the care of the poor is incumbent on the whole of society"
Distributive Justice Theories

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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

- Top Quarter: 74%
- 2nd Quarter: 16%
- 3rd Quarter: 7%
- Bottom Quarter: 3%
Redistributive Principle

unequal but better
The Market system

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