

COMPARATIVE POLITICS

Political Economy of Wealth

The logo for the Department of Political Science features a blue rectangular background. On the left side, there is a diagonal split: the top-left corner is orange, and the rest of the left side is a darker blue. The text "DEPARTMENT OF" is in a smaller, dark blue font, and "POLITICAL SCIENCE" is in a larger, bold, dark blue font, both positioned on the right side of the blue background.

DEPARTMENT OF
POLITICAL SCIENCE

INTRODUCTORY COMMENTS AND KEY QUESTIONS

Orvis and **Drogus** note that the Great Recession that began in the US in 2007 and spread across the globe in 2008-09 caused massive economic upheavals which led to numerous political changes...with many governments changing hands around the globe.



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Market economies have become pretty much universal since the end of the Cold War. Although the state does not control the economy in a way that previous Communist governments did.



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How Mixed Economies Work

A mixed economy combines the advantages and disadvantages of three different types of economies: market, command, and traditional economies

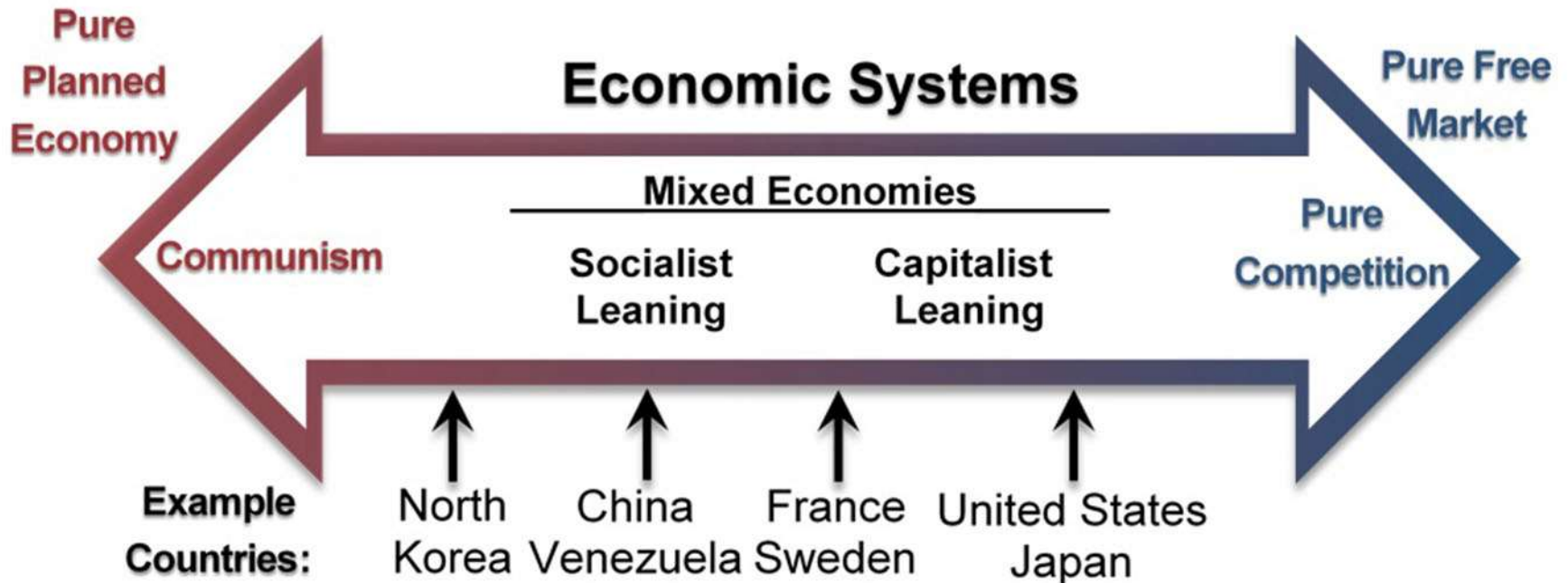
- Government has a large role in the military, international trade, and national transportation
- Driven by the motivation of self interest of individuals
- Allows federal government to safeguard its people and market



However:

governments can and do intervene in the economy to try to encourage economic growth and influence how economic benefits are distributed.

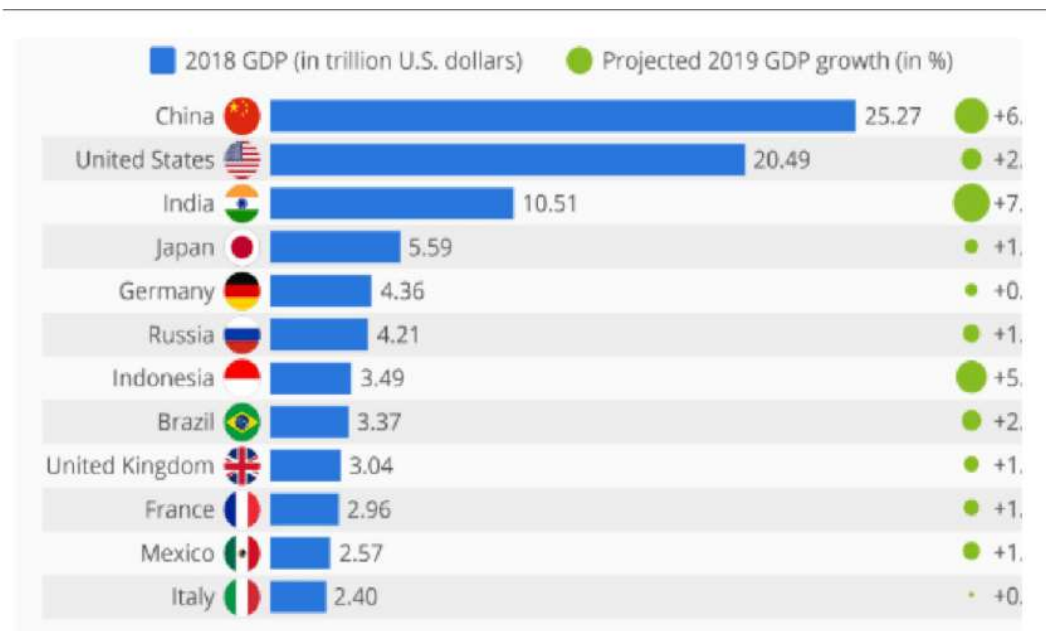
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As a result, the relationship between the state and the market and the debates surrounding it are crucial to understanding modern politics virtually everywhere.

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As Table 10.1 (page 315) in your text demonstrates, even though virtually all countries are now market economies, they have achieved widely varying levels of economic success.

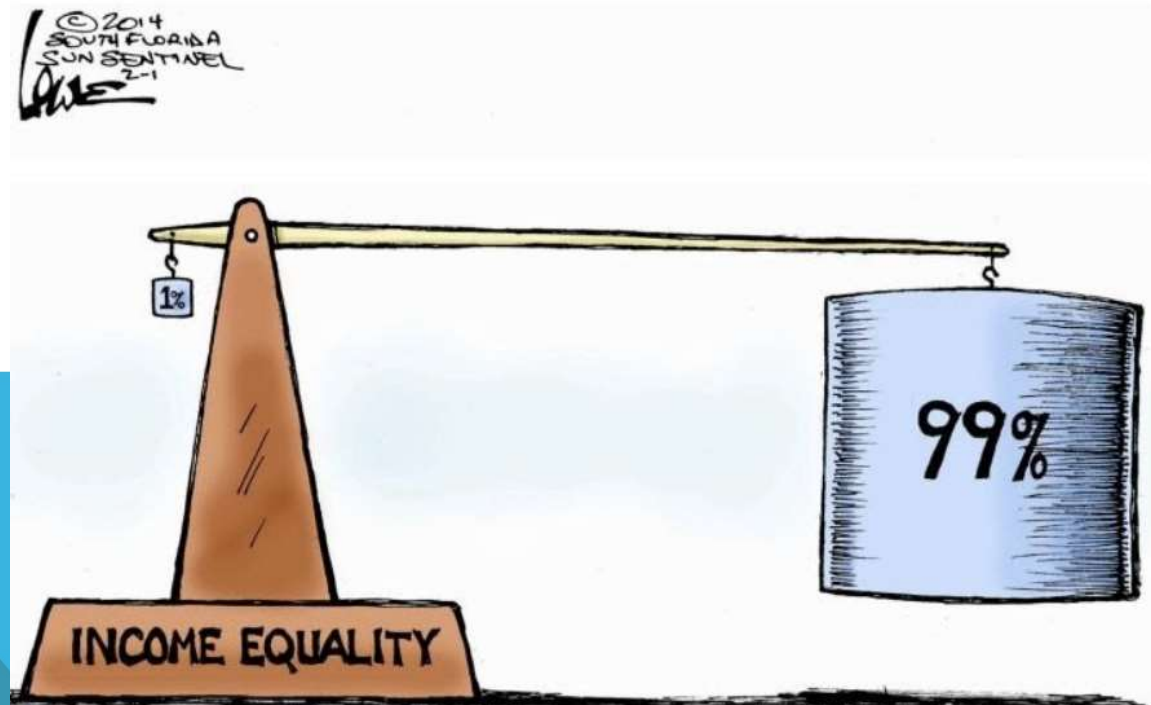


Source: IMF; The European Sting; <https://europeansting.com/2019/12/23/in-2020-asia-will-have-the-worlds-largest-gdp-heres-what-that-means/>



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Different histories, positions in the global economy, and economic policies produce dramatically different levels of wealth, economic growth, unemployment, inequality, and poverty.



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Chapter 10 of your text will examine the fundamental economic concepts that will help us understand the relationship between the state and the market and the long-standing debates over that relationship.



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The Market, Capitalism, and the State

A **market economy** is an economic system in which individuals and firms exchange goods and services in a largely unfettered manner.



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Capitalism



Capitalism is not exactly the same thing as a market economy, though the terms are typically used interchangeably. Capitalism is the combination of a market economy with private property rights.

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Almost all countries have some form of a capitalist economy today, although the degree to which the market is unfettered and the precise nature of private property rights vary widely.

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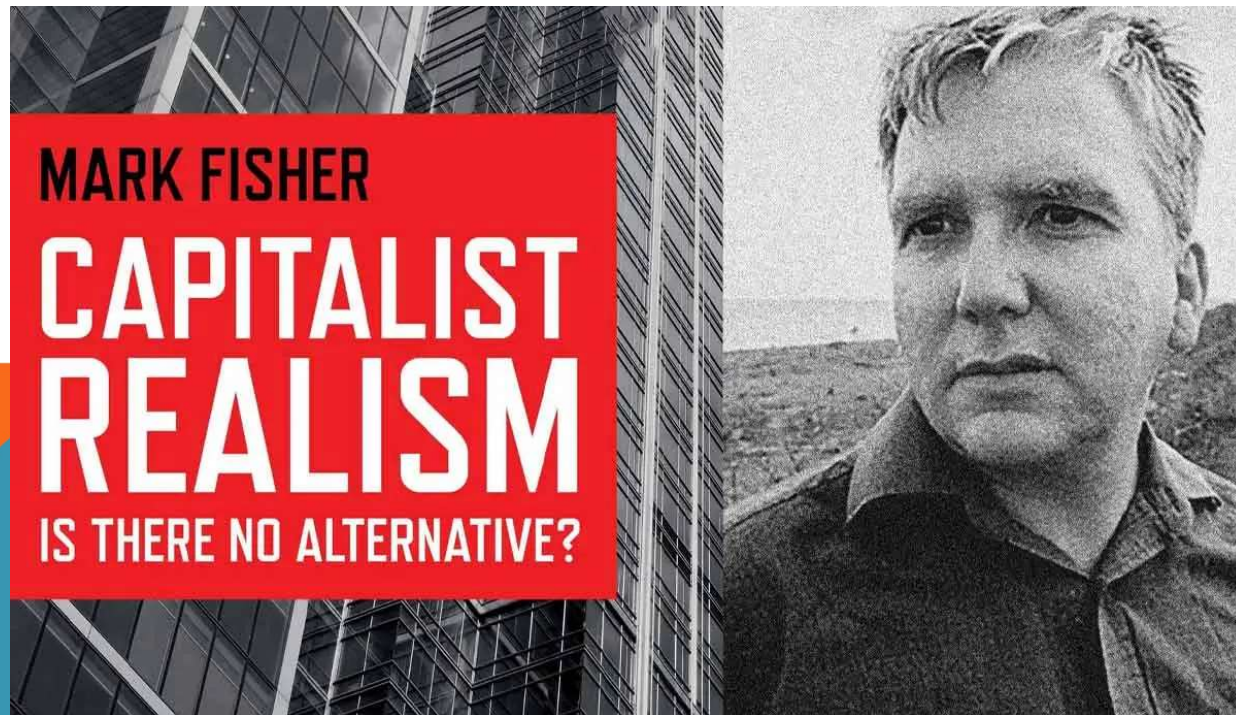
The end of the Cold War eliminated the communist **command economy** – an economic system in which most prices, property, and production are directly controlled by the state – as a viable political economic model...BUT...



...it did not end the debate over what ought to be the relationship between the market and the state.

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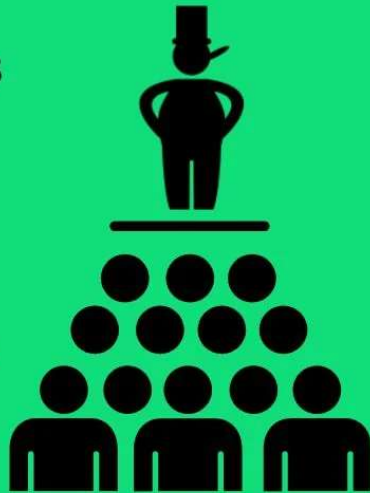
People tend to see the capitalist market economy as somehow natural, and therefore also see it as existing independently of government. Of course, nothing could be further from the truth.



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It's important to always remember that capitalism **CANNOT** exist without the state; the absence of a state would mean the market would be severely limited; without state provision of security, property and contract rights, and money, exchanges would be limited and would require security forces.

**Capitalist Societies
Are Never Fully
Capitalist, As
Capitalism
Requires the State
to Survive.**



JoeWrote.com

**"A BASIC PRINCIPLE OF
MODERN STATE CAPITALISM
IS THAT COSTS AND RISKS
ARE SOCIALIZED TO THE
EXTENT POSSIBLE, WHILE
PROFIT IS PRIVATIZED."**

—NOAM CHOMSKY



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Essential Roles

There are several essential roles the state must play in a capitalist economy:

- 1) Providing security
- 2) Establishing / enforcing property rights
- 3) Creating and controlling currency



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teachoo

Public Goods

Goods or services that cannot or will not be provided via the market because their costs are too high or their benefits are too diffuse.

What are Public Goods and Private Goods

Private Goods



They are goods which are meant for Consumption (use) of Particular person

Example- Car

Public Goods



They are goods which are Meant for Consumption (use) of all members of society

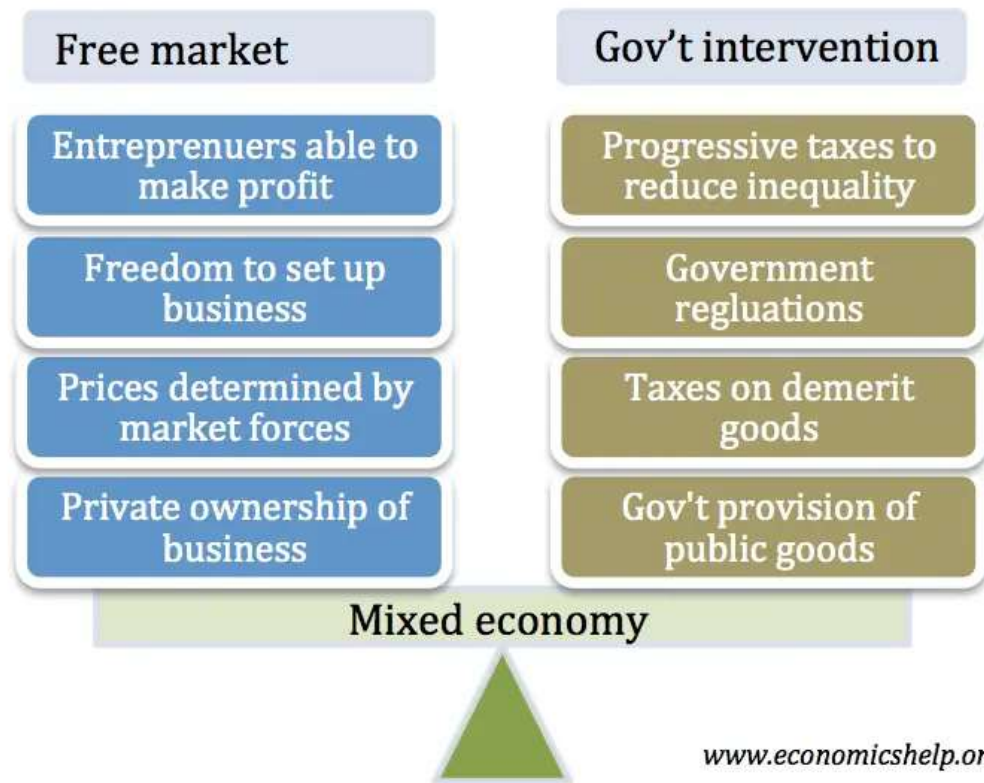
Example -Bridge

Good example?
National Security

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Beneficial Roles

Several other roles the state commonly plays in the modern market economy are not absolutely essential, but most analysts consider them beneficial.



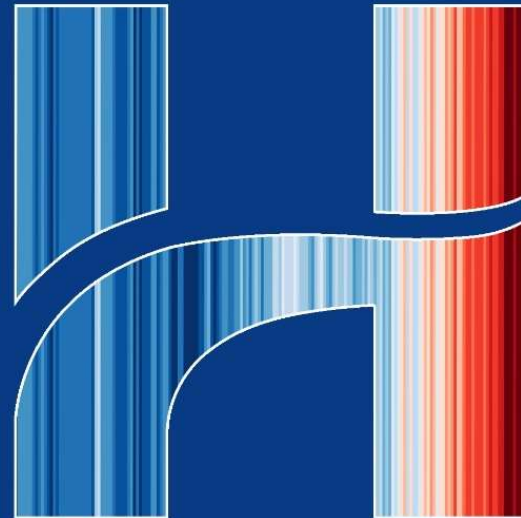
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They include:

- 1) Providing infrastructure
- 2) Education and health care
- 3) Correcting market failures

**'Climate change is
the greatest
market failure the
world has seen'**

Professor Brian Scott Quinn



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Market Failure

Phenomenon that occurs when markets fail to perform efficiently.

MARKET FAILURE & INTERVENTION

MARKET FAILURES IN FOCUS



Labour market



Financial Markets



Environmental Market Failure



Product Markets



Housing Market

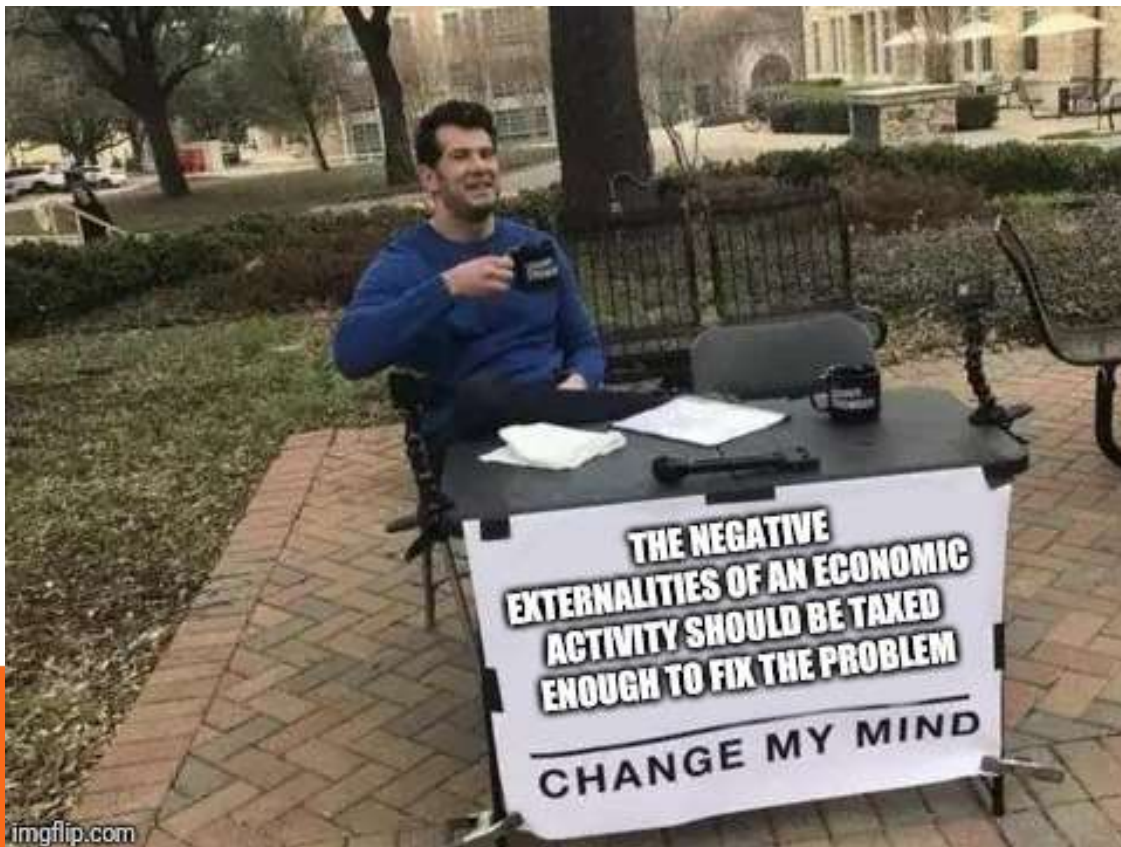


Commodities Markets

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Externality

A cost or benefit of the production process that is not fully included in the price of the final market transaction when the product is sold.



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Markets can also only maximize efficiency when buyers and sellers know the full costs and benefits of their transaction. Economists call this having “**perfect information.**”



Nothing in these abstract economic models actually works in the real world. It doesn't matter how many footnotes they put in, or how many ways they tinker around the edges. The whole enterprise is totally rotten at the core: it has no relation to reality.

— Thom Chomsky —

AZ QUOTES

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Monopoly

A third common market failure is monopoly – the control of the entire supply of a valued good or service by one seller.



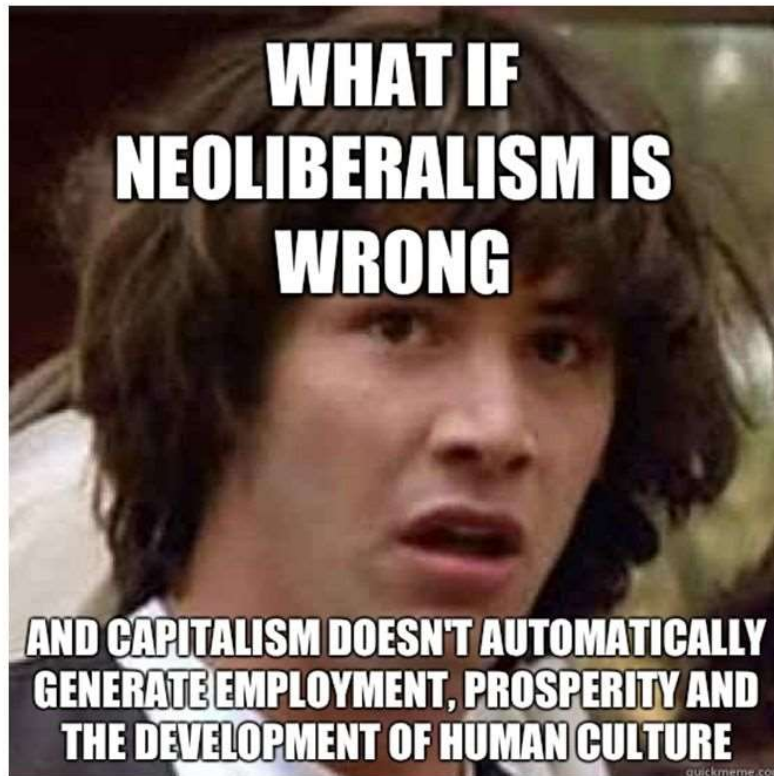
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Politically Generated Roles

All the economic functions of the state discussed to this point are economically required or at least beneficial to the market. The final category of state functions in a market economy are those that are politically generated by citizens demanding that a state take action.



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Because state interventions are the result of political demands, they are contentious and vary greatly from country to country.

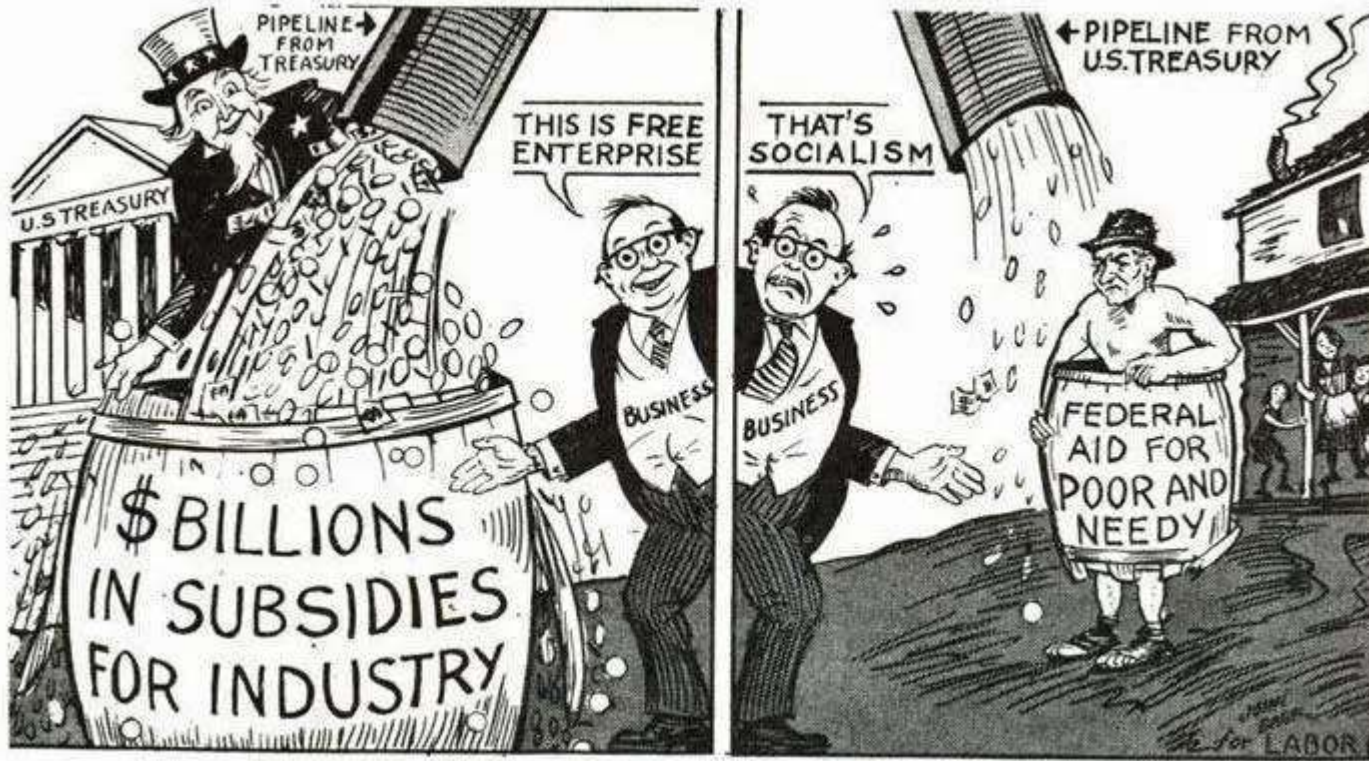


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In wealthy industrial economies, modern working conditions – including minimum wage, and eight-hour workday, and workers' health and safety standards – are largely the result of labor union demands.



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Similar controversy and variation exist around income redistribution policies. Typically referred to as “welfare” in the U.S., these policies exist to mitigate the effects of unequal income distribution that markets generate.

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The state must carry out certain roles if capitalism is to survive and thrive.

Political leaders know that much of their popularity rests on the ability to generate goods and services, jobs, and government revenue.



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Key Economic Debates

Understanding political economy and the relationship between the state and the market requires the application of both political science and basic economics.

Only Eight People Have 50% Of The World's Wealth, But I Might Be One Of Those Eight Someday So I Don't Think We Should Do Anything About It

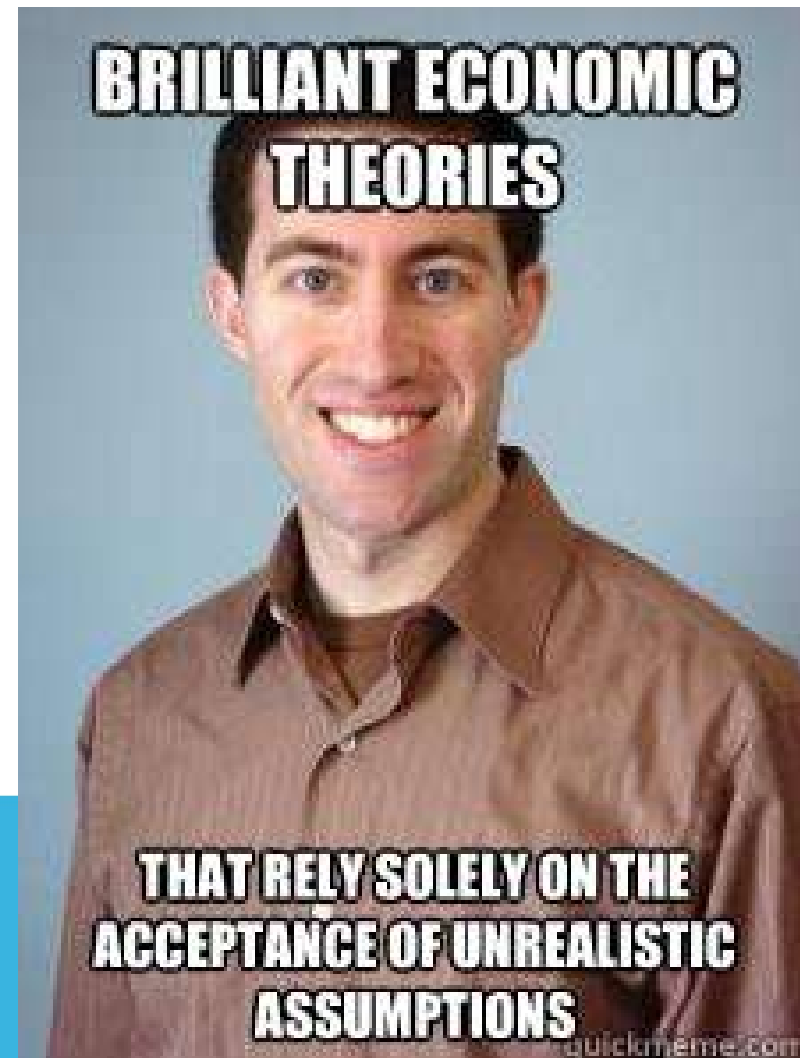


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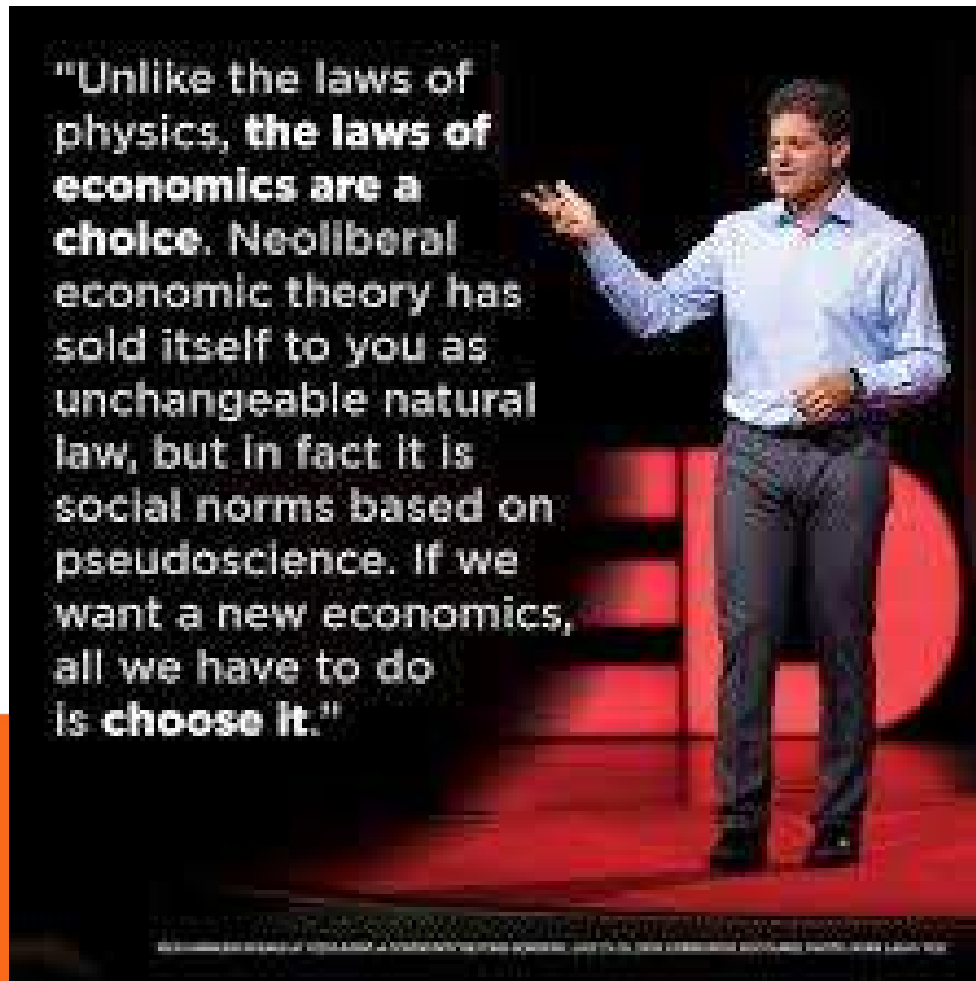
hardstyleblog just call me Schrodinger's billionaire

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Major economic theories lie behind the debates over how governments should intervene in the market.



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The most important debate is between Keynesian and neoliberal theories, of when, why, and how the state ought to attempt to guide the economy.

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Keynesianism

Named for British economist **John Maynard Keynes**, who argued that governments can manage the business cycles of capitalism via active fiscal policy and monetary policy, including deficit spending when necessary.



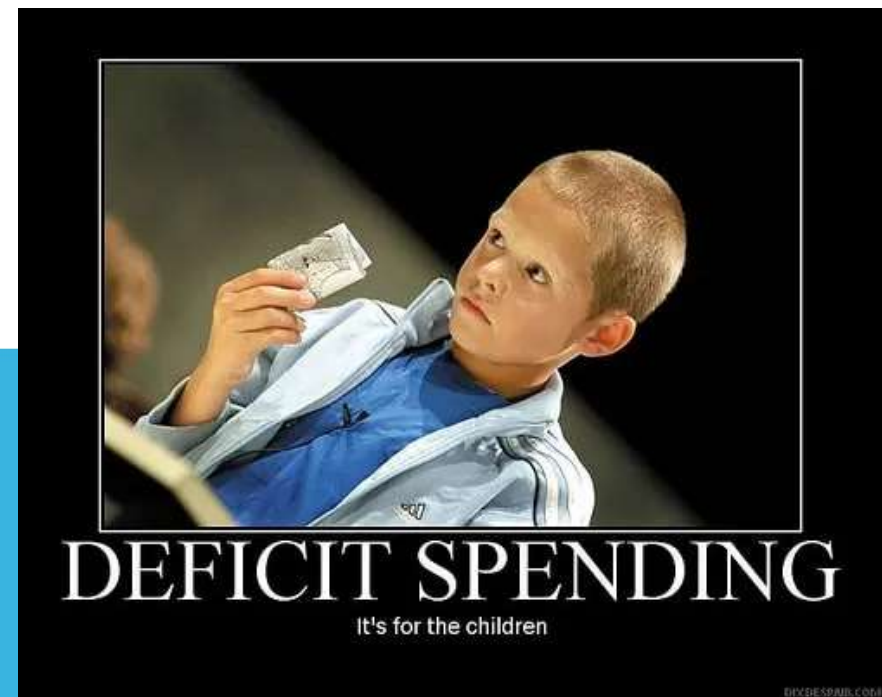
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Fiscal Policy

Government budgetary policy

Deficit Spending

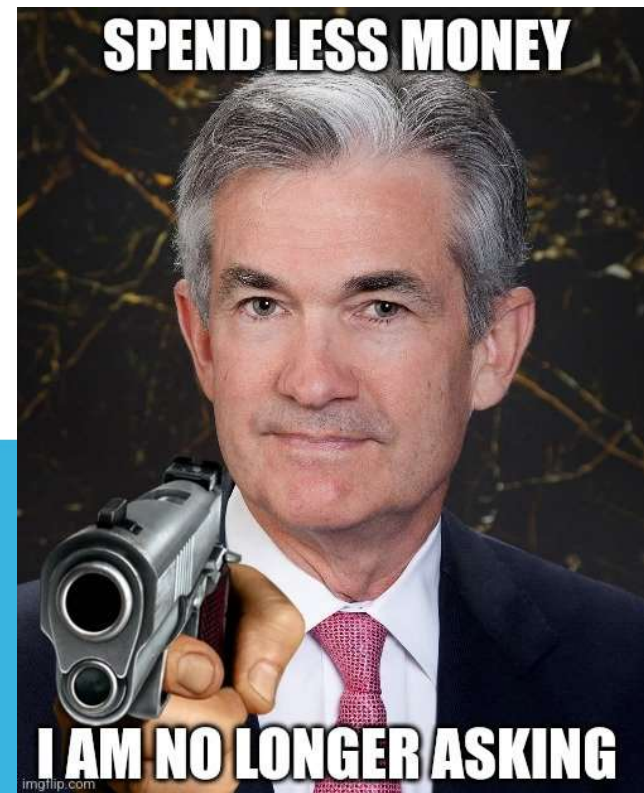
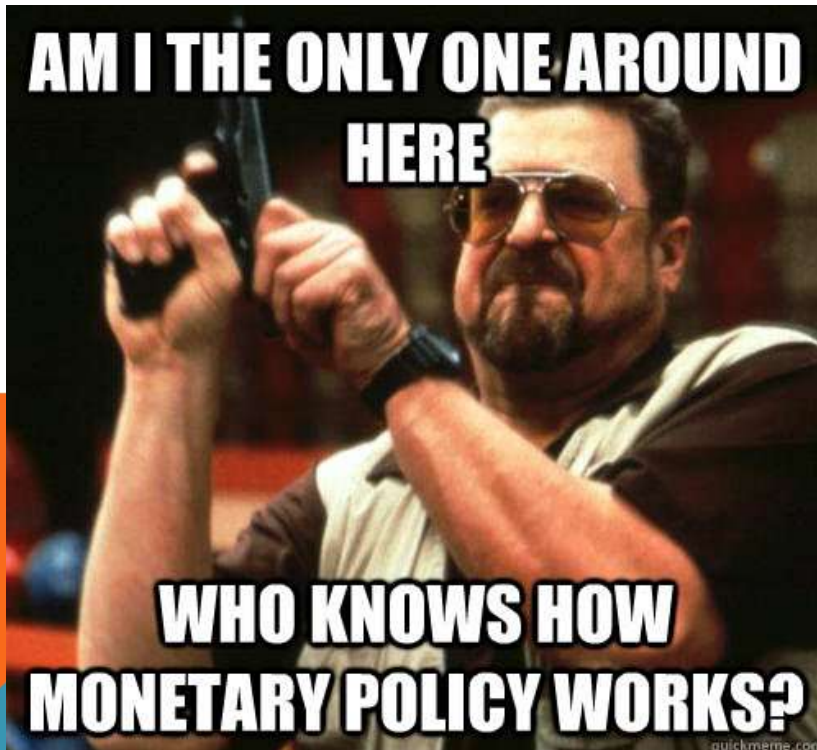
Government spending more than is collected in revenue



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Monetary Policy

The amount of money a government prints and puts into circulation and the basic interest rates the government sets.



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Neoliberalism

There exists an alternative economic theory that has gained popularity. What came to be known as **neoliberalism** argued that government intervention to steer the economy was at best ineffective and often harmful.



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Some neoliberal economists (i.e. **Milton Friedman** and **Friedrich Hayek**) argued that governments should minimize intervention in the free market so that the market can allocate resources efficiently as possible to maximize wealth generation.



PS Longer Reads



The Two Faces of Neoliberalism

JEREMY ADELMAN revisits the lives and intellectual legacies of Friedrich von Hayek and Milton Friedman.

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Neoliberal "science"

Umm... ermmm... the labor process is socialized...um many people... make this pencil



WOW



Because they believe market failure is relatively rare and government spending harms the ability of business to invest, neoliberal theorists also favor cutting back most government regulations.

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Keynesianism vs. Neoliberalism: An Ongoing Debate

The 2008-09 Great Recession and its aftermath led to the most significant debate on economic policy in a generation.

Neoliberal	Keynesian
Markets tend to equilibrium; they are stable and efficient (market optimists)	Markets and their equilibria are unstable and inefficient (market pessimists)
Markets should therefore be deregulated	Markets should therefore be regulated
Policy inefficiency hypothesis, rule binding of politics	State must correct market, Policy efficiency
Bidding conditions for companies are crucial	Demand in the goods markets is crucial
Labour market is largely autonomous	Labour market is derived from goods markets
Economic framework is crucial, regulatory policy	State intervention is crucial, process policy
Long-term oriented	Short-term oriented

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The recession also initiated a renewed debate about government regulation, especially the financial sector.



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Crises such as the Great Recession can be moments when societies move in entirely new directions, what institutionalists call “critical junctures.”

Many initially believed the Great Recession would be such a juncture.

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Types of Capitalist Economies

A recent, influential school of thought known as the **varieties of capitalism (VOC)** approach to analyze these differences systematically.

Varieties of Capitalism

1. Accountable capitalism
2. American capitalism
3. Anarcho-capitalism,
4. Behavioral capitalism
5. Capitalism without capital
6. Conscious capitalism
7. Counterfeit capitalism
8. Crony capitalism
9. Disaster capitalism
10. Distributed capitalism
11. Extreme capitalism
12. Free-market capitalism
13. Global capitalism
14. Green capitalism
15. Industrial capitalism
16. Late capitalism
17. Low-road capitalism
18. Modern capitalism
19. Money-centered capitalism
20. Monocapitalism
21. Multicapitalism
22. Neoliberal capitalism
23. Naked capitalism
24. Network capitalism
25. Platform capitalism
26. Predatory capitalism
27. Rainbow capitalism
28. Regenerative capitalism
29. Rentier capitalism
30. Satoyama capitalism
31. Stakeholder capitalism
32. State capitalism
33. Surveillance capitalism
34. Sustainable capitalism
35. Twentieth-century capitalism
36. Vulture capitalism
37. White capitalism
38. Woke capitalism

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The VOC model is a school of thought analyzing wealthy market economies that focuses primarily on business firms and how they are governed; divides such economies into liberal market economies and coordinated market economies.



There are different varieties and forms of capitalism. There are priorities within the capitalist society so that you can have countervailing forces come in and empower your working people and your poor people. There are capitalist societies that do not have poverty. America needs to understand that.

— Cornel West —

AZ QUOTES

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Liberal Market Economies (LMEs)

In the VOC approach, countries that rely heavily on market relationships to govern economic activity; the United States and United Kingdom are key examples.

**CAN YOU FEEL IT?
THE INVISIBLE
HAND OF
FREE MARKET
CAPITALISM?**



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Coordinated Market Economies (CMEs)

Capitalist economies in which firms, financiers, unions, and government consciously coordinate their actions via interlocking ownership and participation; Germany and Japan are key examples.

COORDINATED MARKET ECONOMY

DEFINITION

A coordinated market economy (CME) refers to a market economy that is regulated by formal organizations such as trade unions and employers associations. The industry interaction between existing businesses as well as the relations of companies with investors, suppliers, employees, and customers are also coordinated by these formal institutions.

WWW.FINANCIALFALCONET.COM

EXAMPLES

Germany



Japan



Sweden



Austria



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Globalization: A New World Order, or Déjà Vu All Over Again

Liberal Market Economies

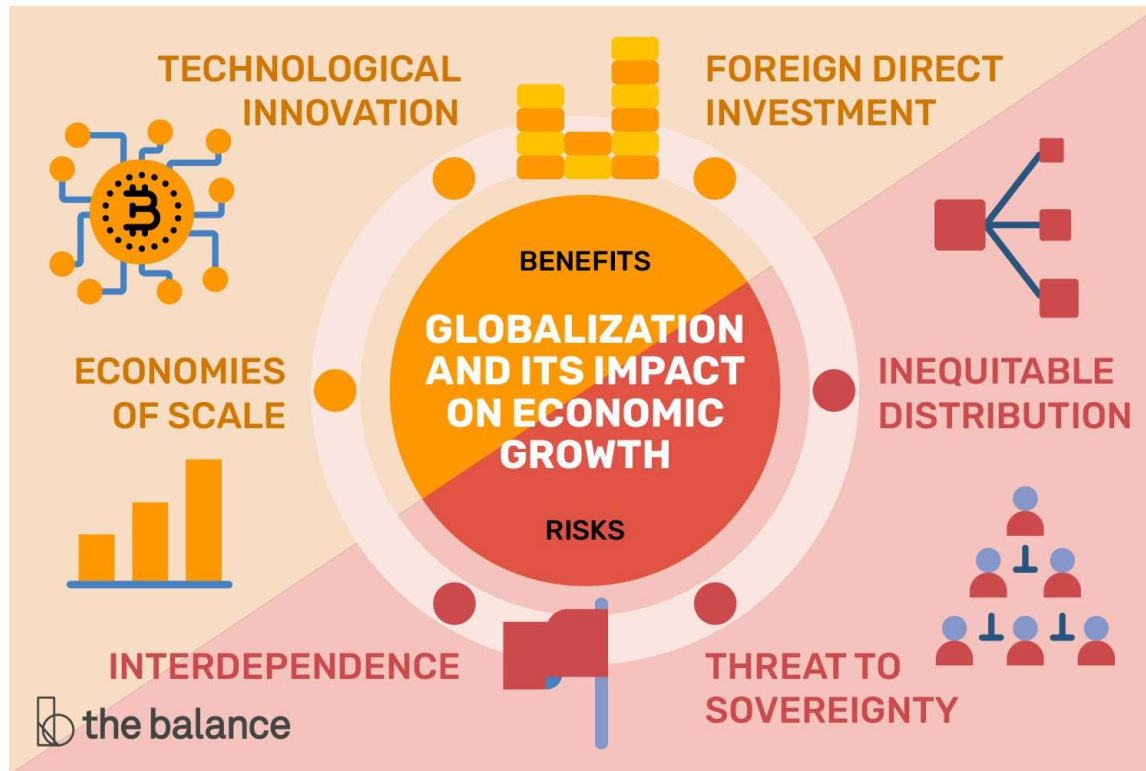


Coordinated Market Economies



Individual	Boundaries	Community
Short-Term	Time Horizons	Long-Term
'Impatient'	Capital	'Patient'
Flexibility	Labour	Commitment
Decentralised, Bottom-up	Approach	Centralised, Top-down
US, UK	Examples	Japan, South Korea

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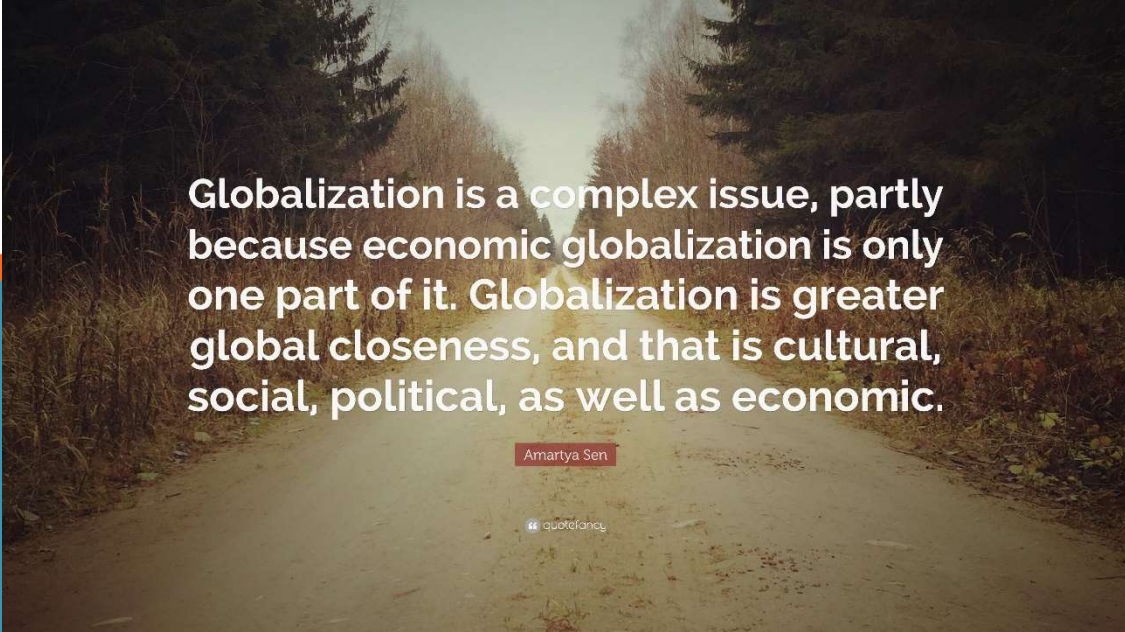
Globalization has become perhaps the most frequently used, and abused, term in political economy.

It first gained prominence in the 1990s, and since then hundreds of books and countless articles have been written about it.

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Globalization

A rapid increase in the flow of economic activity, technology, and communications around the globe and the increased sharing of cultural symbols, political ideas, and movements across countries.



Globalization is a complex issue, partly because economic globalization is only one part of it. Globalization is greater global closeness, and that is cultural, social, political, as well as economic.

Amartya Sen

quote fancy

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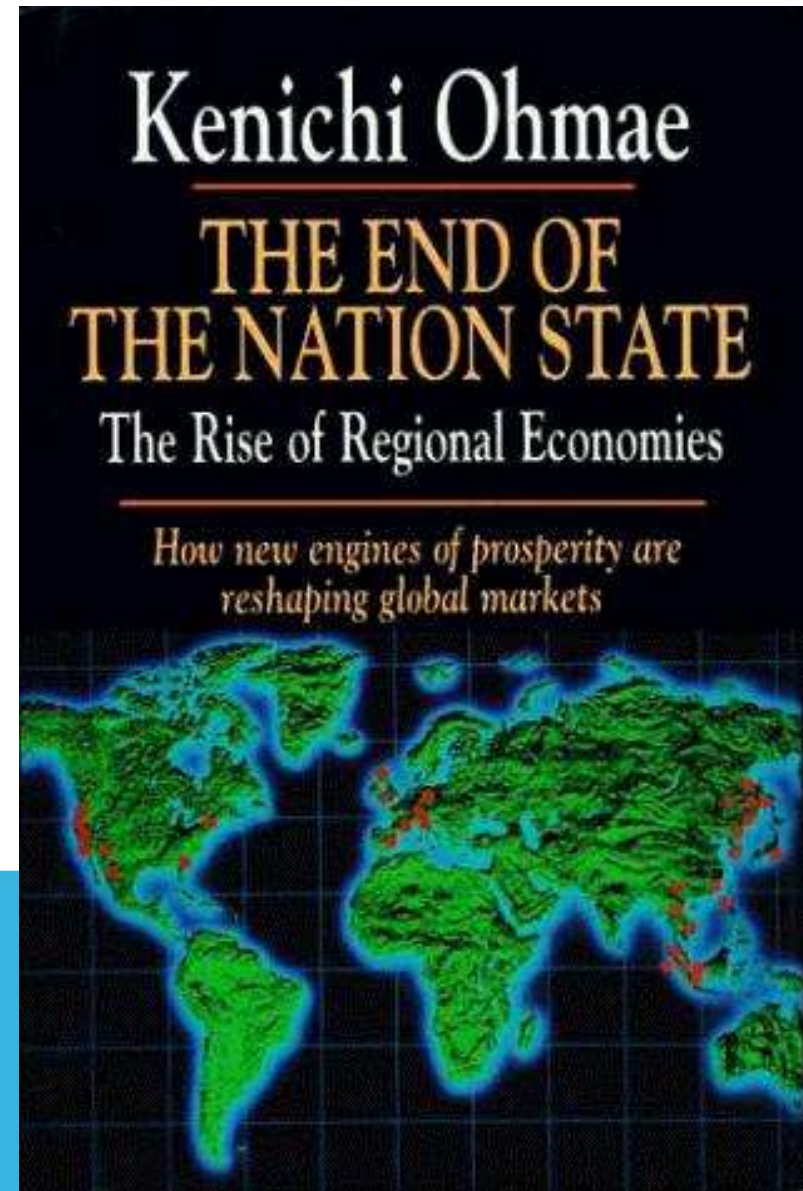
Three key questions have arisen about globalization:

- 1) Does it represent a “brave new world” in which the fundamental relationship between the state and the market has changed forever, or is it simply the latest phase in the relationship – something new and interesting but not fundamentally different?
- 2) What caused it in the first place?
- 3) What can and should be done about it, if anything?

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A Brave New
World?

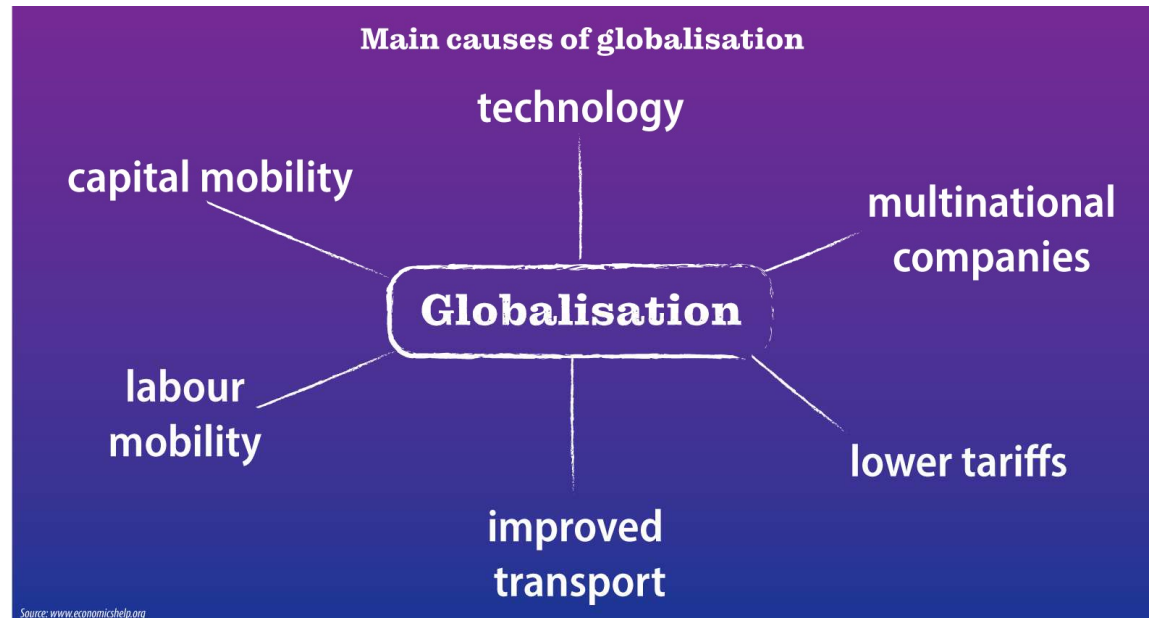
Ohmae's "end
of the nation-
state"



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Causes of Globalization

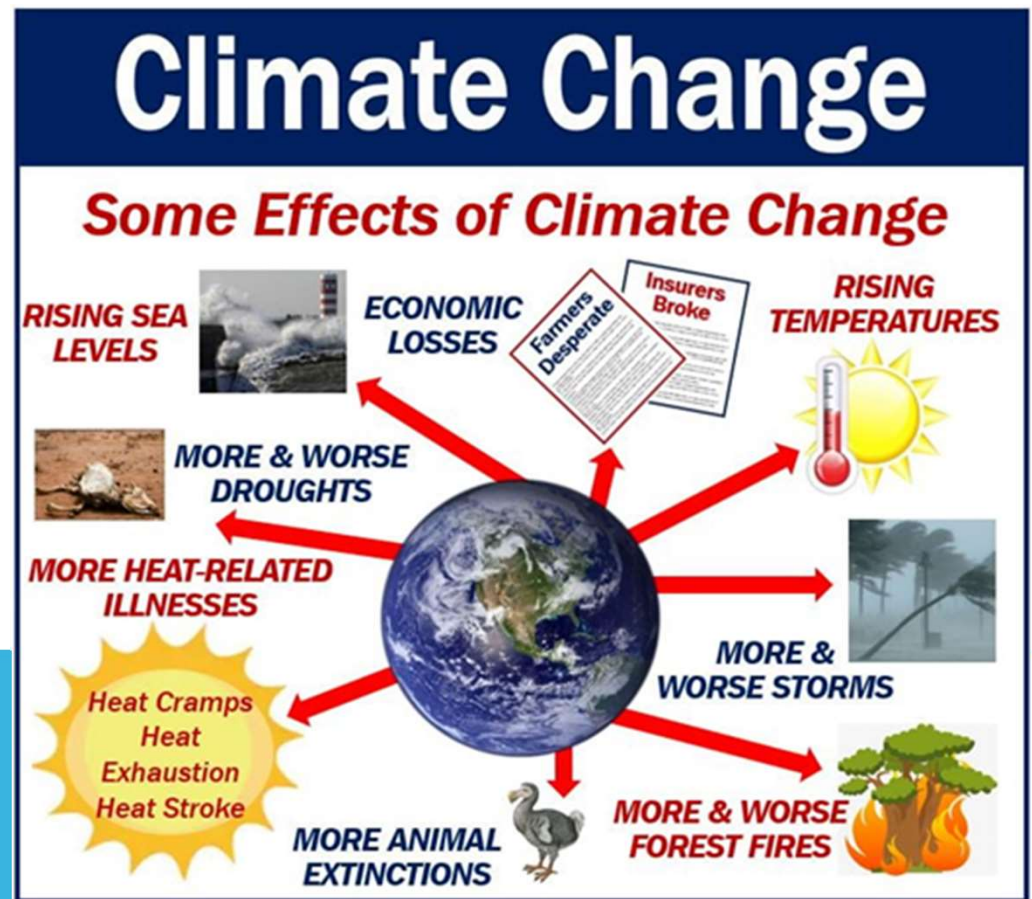
Technology or government policies?



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Political Responses to Globalization

Global problems require global political solutions
Ex. Climate change



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Globalization and the European Union

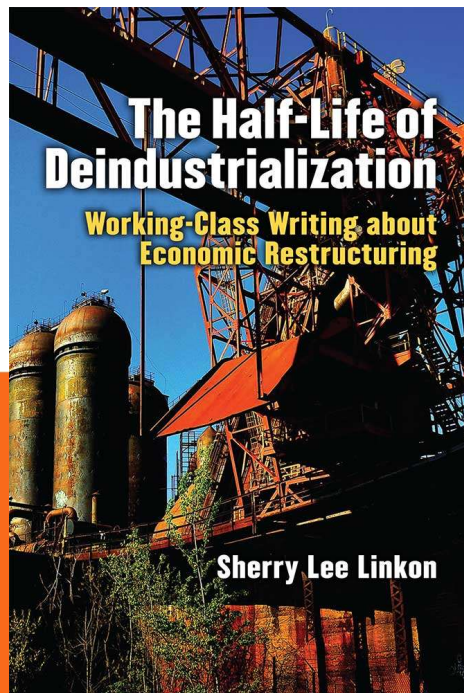
Brexit – the vote to remove Britain from the EU – was a part of the backlash against globalization



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State Responses to Globalization

The biggest economic effect of globalization in the wealthy countries has been *deindustrialization*.



How should wealthy governments respond?

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Convergence

Argument that globalization will force similar neoliberal policies across all countries.

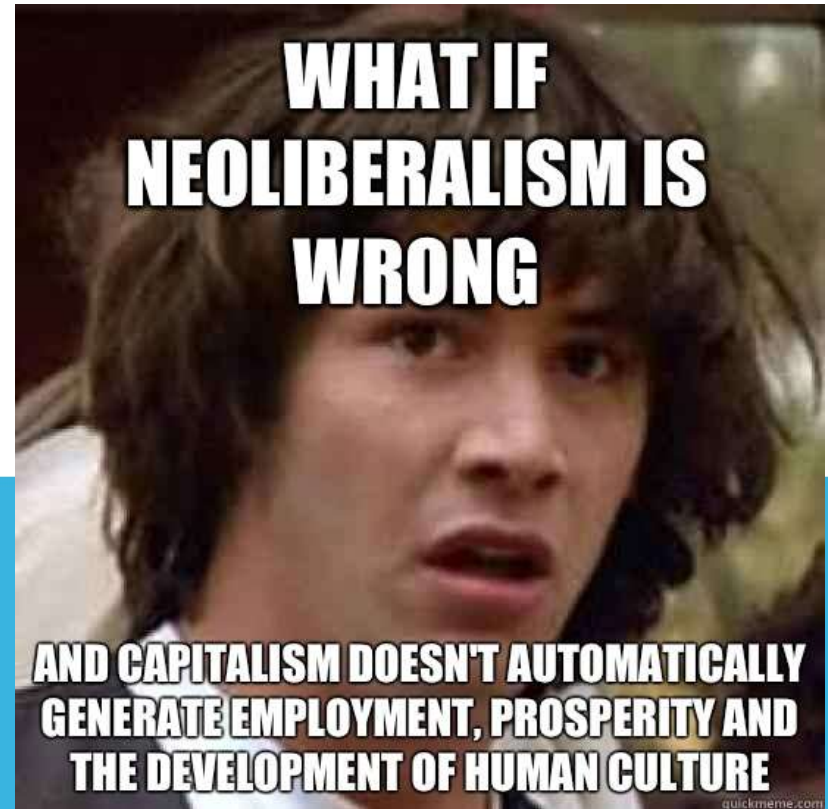
We should bear in mind that highly authoritarian, vicious states, are quite compatible with neoliberalism.



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Comparative Institutional Advantage

Idea in the VOC school of thought that different kinds of capitalist systems have different institutional advantages that they usually will try to maintain, resulting in different responses to external economic pressures.



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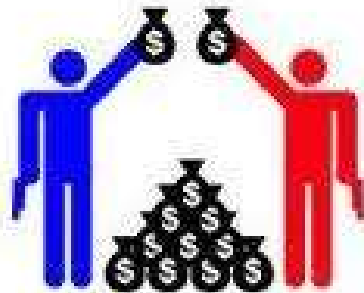
Developmental State

A state that seeks to create national strength by taking an active and conscious role in the development of specific sectors of the economy.



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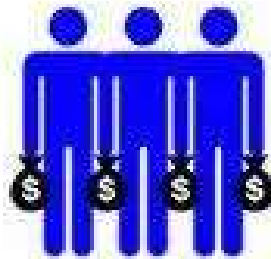
Concluding thoughts and questions...



capitalism
(described by capitalists)



capitalism
(described by socialists)



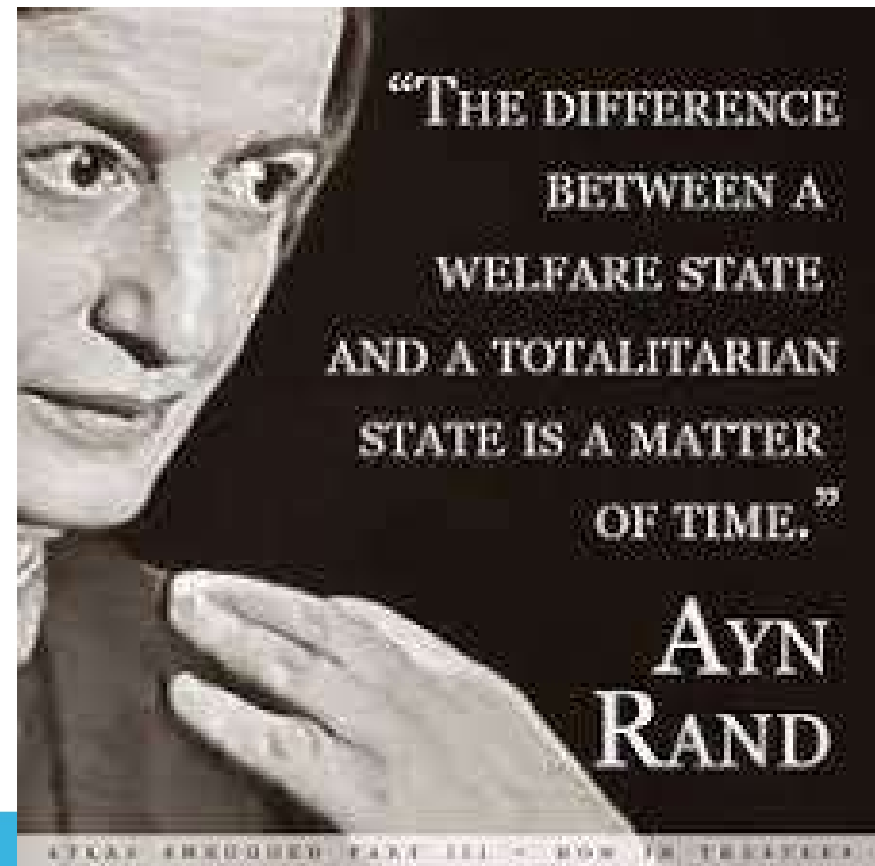
socialism
(described by socialists)



socialism
(described by capitalists)

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With the extension of the market economy to nearly every corner of the globe, a universal set of issues exist involving the relationship between the market and the state.



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Globalization has challenged all past economic models. Whether these models were successful or not in earlier decades, they now face rapidly moving capital that seems to limit their options and pushes them all in the direction of greater openness to the market.



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However, economic sovereignty, though clearly reduced, still exists.

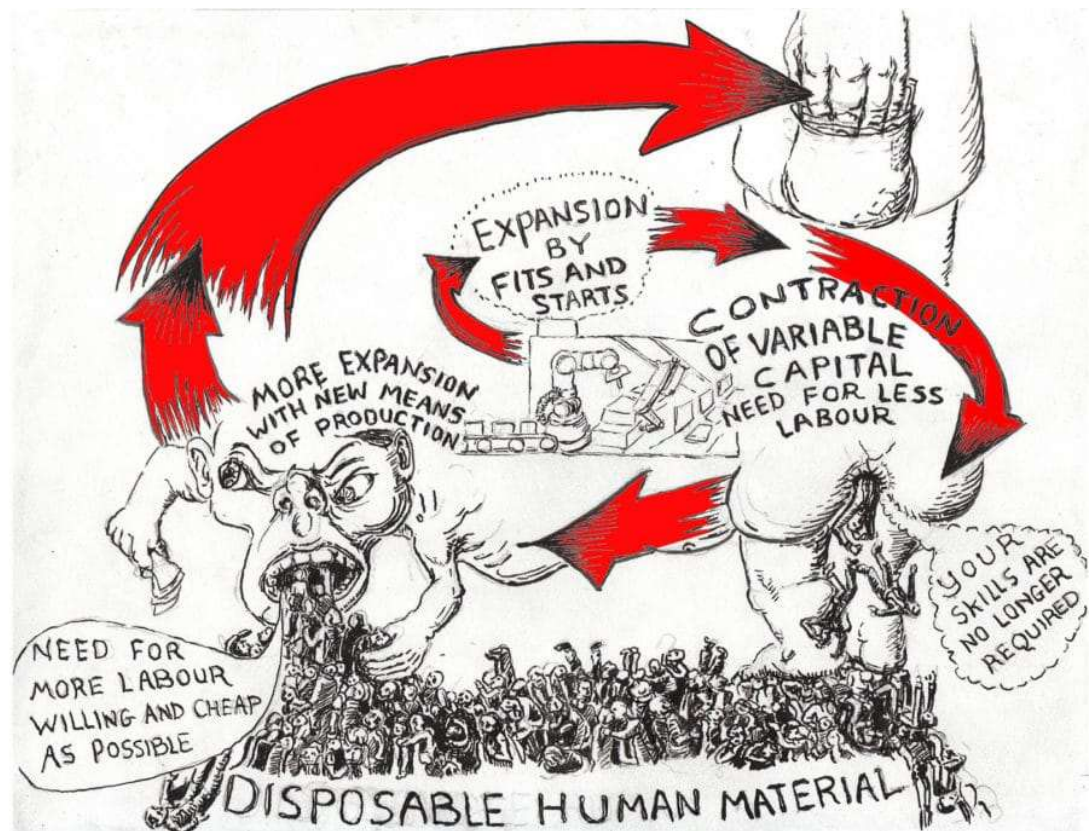
LMEs – intensifying their openness to the market

CMEs – moving in that direction much more slowly, preserving some aspects of their distinct model



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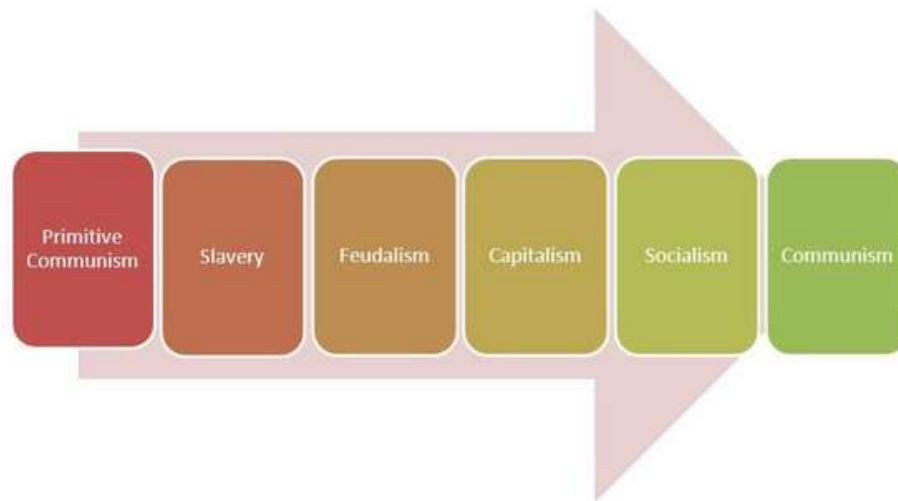
Comparativists have long attempted to explain state intervention in the market with differences in perspective between Marxists and pluralists (bourgeoisie vs. worker's movements and unions).



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Institutionalists, including theorists of the VOC approach, see key institutions developing in particular historical junctures and evolving slowly from there, only fundamentally disrupted at times of profound change.

Stages of history



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