

The Political Economy

PS 215, Global Issues – MHCC

Political Systems

- **describe the process by which decisions are made**
 - determine who chooses the leaders of the country
 - the process by which laws are made
 - how much control do people have and checks and balances in terms of power

Economic Systems

- **describe how goods (services and products) are produced and distributed.**
 - determine who owns industry
 - how much of one product is produced
 - how consumers purchase or receive the product
 - how are prices determined, how many products are produced and when
- A study of how political systems *interact* with economic systems is called **political economy**.

Liberal Political Economy

- Believes in the possibility of cooperation for economic gain.
 - By building international organizations, institutions, and norms, states can mutually benefit from economic exchanges.
 - Doesn't matter if some states gains more or less than others as long as state's wealth increases.
 - The most important goal of economic policy is to create a maximum of total wealth by achieving optimal efficiency (maximizing output, minimizing waste)

Regulated Capitalism

- **The general theory behind this system is that government should not be very involved in the economic system.**
 - that private individuals or groups of them (companies/corporations) should own industry and services
 - purpose of this system is to generate profit; profit provides motivation to make better, more efficient products
 - system is based on competition and supply and demand.

Regulated Capitalism cont'd

- Embraces markets mechanisms with the following “rules”:
 - 1) consumer protection (e.g. products should be safe to eat)
 - 2) fair labor practices (e.g. work places should be safe, kids shouldn't work)
 - 3) business ethics (e.g. anti-monopoly laws)
 - 4) environmental regulations (e.g. car emissions need to be lessened)
 - 5) there is wide-spread acceptance of safety nets (e.g. unemployment, disability, etc) which provide temporary help to those that cannot work or are in dire situations.

Support Arguments

- Human Nature
 - Humans operate best when they can use their ability to reason to set priorities for their own lives.
 - Because of this ability, humans need to be given maximum choice.
- Economically
 - rewards individual effort the most, and respects the rights of individuals
 - no human bias so economy is inherently fair and rewards individual effort.
 - Individuals have control over the economy by voting with their dollar; so they control what's being produced and what isn't.

Liberalism & Trade

- Individual households and firms are the key actors in the economy and views government's most useful role as one of noninterference in economics except to regulate markets in order to help them function efficiently.
 - Free trade: government removed from markets, the “invisible hand” of supply and demand can work out the most efficient patterns of production, exchange, and consumption.
 - Interdependence: when two or more states are simultaneously dependent on each other; states that trade become mutually dependent on each other's political cooperation in order to realize economic gains through trade.
 - Trade-based wealth depends on international political cooperation, and violence usually does not work well in pursuing such wealth.
 - Balance of Trade: the value of a state's imports relative to its export.
 - A state that exports more than it imports has a **positive balance of trade**, or **trade surplus**. (China)
 - A state that imports more than it exports has a **negative balance of trade**, or **trade deficit**. (U.S.)

Comparative Advantage

- The gains that different states enjoy in producing different goods.
 - States differ in abilities to produce goods because of: natural resources, labor force characteristics, technology, etc.
 - Each state should specialize in producing goods for which it has a comparative advantage, and trade for goods that another state produces best.

Realist Response: Mercantilism

- Like Realism, believes that each state must protect its own interests at the expense of others – not relying on international organizations to create framework for mutual gains.
 - (Relative Power) – what matters most is each state's position relative to other states.
 - Relative wealth and trade can be translated directly into military power
 - Military power is generally not useful in economic negotiation, but the outcome of economic negotiations matters for military power.
 - The most important goal is to create the most favorable possible distribution of wealth

Mercantilism cont'd

- States need to maintain their own economies in whatever way possible
- (Trade) - Poorer nations must align themselves with richer ones in order to achieve some development
 - poorer states must offer their protectors some sort of product or service.

Protectionism

- protection of domestic industries from international competition. (seek to distort free markets to gain advantage for the state)
 - Governments cater to political demands of important domestic industries, protect industries considered vital to national security, and to defend industry from predatory practices.
 - Economic nationalism: use of economics to influence international power and relative standing in the international system.

The Marxist Critique of Capitalism and the Idea of Pure Communism

- problem with liberals and conservatives is that they both ignore the true causes of problems in society
 - (Liberals) – NOT a lack of rights and individual freedom
 - (Conservatives) – NOT lack of an enforced moral framework
- It is Capitalism itself!

Marxist Critique cont'd

- Working is a natural part of existing; by gathering berries or developing industrial society
 - economics is the basis of all interaction
 - How we behave really depends on the environment
 - behave in the ways we are rewarded, *especially* how we are rewarded in the economic system (competition vs cooperation)
- Economy is the base, but there are other parts of our society too—like family, religion, politics, schools, media, etc.— **superstructure**
- What features of human nature does capitalism promote: competitive, greedy, self-seeking, uncaring, and materialistic beings
- In sum, it is a system that turns people into things (commodities), brings out the worst aspects of human nature, and doesn't provide benefit for those 90% that actually *create* the wealth—the workers.

Pure Communism

- **We need to get rid of wages and money altogether**
- **We need to get rid of countries and borders**
 - were created by economic empires in the first place to divide the working class.
- Once we do this, **governments, police, banks, and financial institutions become unnecessary.**

The Other Communisms: Orthodox, State Socialism, State Capitalism

- Orthodox Communism (with a capital C) refers to states with a one-party political system and a command economy.
- State socialists argue that workers are not yet educated enough in communism to be able to take over the country
 - the Communist Party runs the country until workers are capable of doing it, including the economy.
- This theory argues that only this focused effort by the Communist Party to organize the state and the economic life of individuals can bring the world closer to overthrowing capitalism

Command Economy: The Ideal

- The term command economy means the government directly controls the economy.
 - primary purpose of the economy is not to generate profit, but to directly provide for citizens needs and wants, rather than generate profit and provide goods and services based on consumer demand and the ability to pay (as in capitalism)
 - Government owns all businesses and goods and services and prioritizes production in order to meet the needs of all of its citizens.

Command Economy cont'd

- A command economy is not based on competition, but rather filling quotas of goods and services deemed useful for citizens.
 - The quotas are determined by the government's estimates of what the people need.
- The principle behind such a system is that the economic system should really focus on providing *at least* everyone's basic needs, if not their basic wants.

Command Economy: Critique

- **Positives:**
 - This system has a smaller gap between rich and poor.
 - All people are guaranteed a basic living standard.
- **Negatives:**
 - It is very difficult to predict people's needs.
 - Efficiency is not the goal, rather full employment is.
 - Corruption can be a large problem since economic power is so centralized.

Command Economy: The Ideal

- governments have had trouble earning enough money to provide for everyone
 - Most command economies today allow *some* private businesses, especially for consumer luxury products such as jewelry, etc. (The government, then, owns *major* industries, not *all* industries.)
- Corruption has been a huge problem.
 - less individual choice in terms of careers.
 - Economic security of political opponents is threatened.

Socialist Democracies

- Socialists believe the *basic* necessities of life—food, shelter, clothing, transportation, medical care, retirement, child care, and higher education—should be provided by the government or at least have costs of these things controlled by the government.
 - support capitalist markets for many industries.

Mixed Economies

- balances government control with the free market in the hopes of having the best of both worlds.
 - designed to provide at least basic goods and services to its people like command economies, but also try to harness the efficiency, production capacity, and innovation of capitalist systems
 - also referred to as “**welfare states.**”

Socialist Democracies cont'd

- embrace the notion of economic rights, which means that all citizens (not just poor ones) receive certain products and services such as free K-12 education, free higher education, free medical care and low-cost transportation, housing, food, and energy.
 - the government guarantees a living wage in retirement
- this philosophy believes that **individual success is a collective responsibility rather than an individual one.**
 - Embrace democracy as a political system, much for the same reasons as liberals.

Socialist Democracies: Critique

- Positives
 - This system provides for the basic needs of the populace.
 - This system has the “best” aspects of capitalism without its worst effects.
- Negatives
 - The system is very expensive; so taxes can be quite high and sometimes salary caps are in place.
 - Government management of industry is less efficient than private management.

Socialism Internationally

- People must have their basic needs met *before* they can readily participate in the primarily capitalist workforce.
 - advocate that since world wealth is a collective phenomenon wealthy nations should pay for poorer ones since wealthy nations benefit most from the current system.
 - can come from corporations or governments or both.
 - “up-front” investment; once countries have developed their economies, monies from external sources become unnecessary.
- Such an economic system leads to peace naturally because the number one cause of conflict is economic disparity.