

# Political Economy 2021-2022

Course 1: Political economy in times  
of crisis

# Course Outline

- Introduction – today's context

1/ What is economics? What is political economy?

2/ What is capitalism?

3/ Some new perspectives of economics to explore

# Introduction - the context

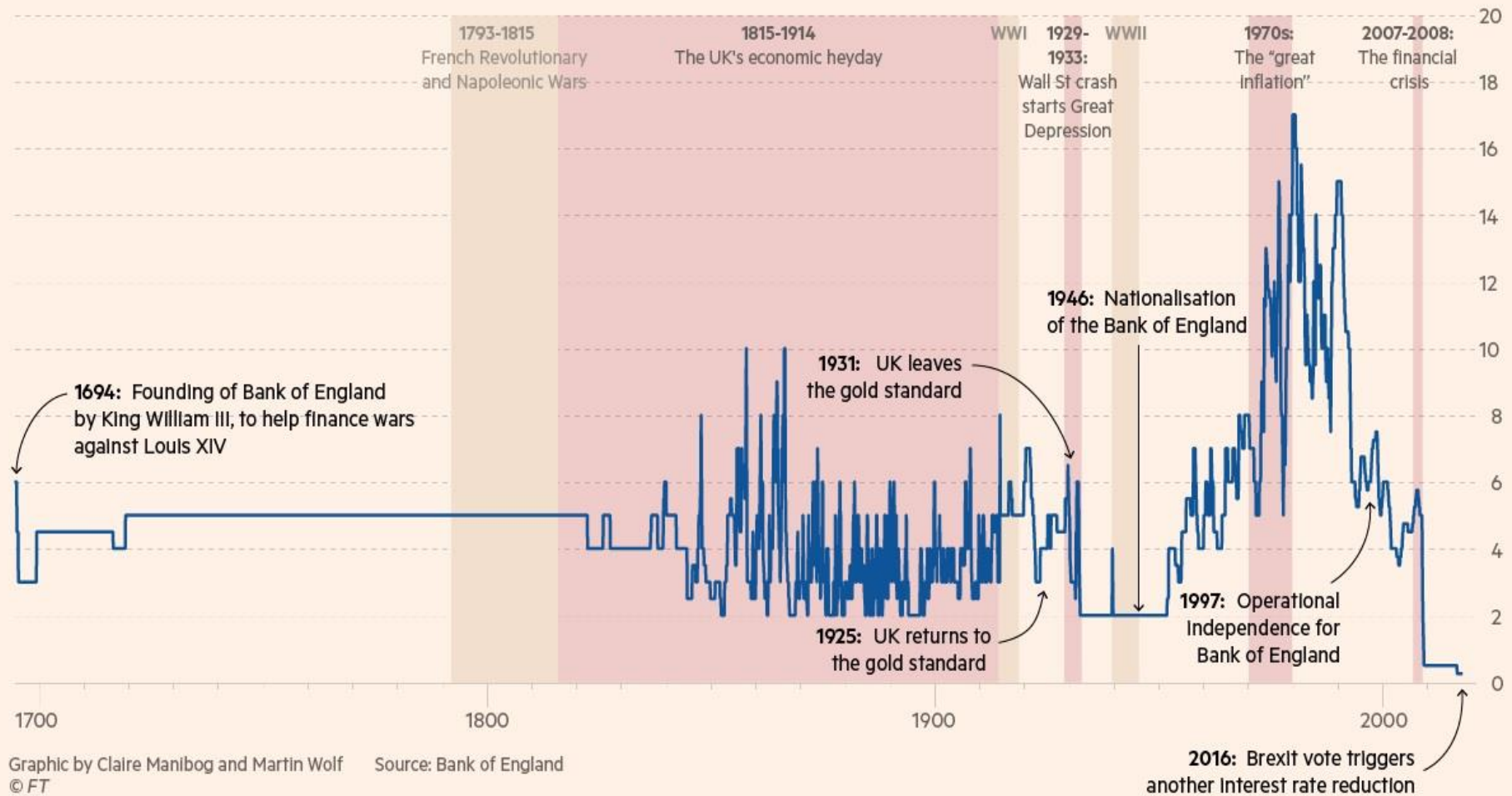
# Covid-19: an unparalleled peace-time crisis

- It is not a war.
- But it is entirely global
- Future is unknown - “massively”
- Grounds for optimism due to vaccines
- Unpredictable consequences: sectors, countries, international relations – **the return of inflation**
- Rising inequalities: within countries and between countries
- Global poverty will likely rise – in contrast to GFC
- Perhaps it will accelerate moves to combat climate change
- But international cooperation has been weak

# Martin Wolf: “Nothing like this has happened in 323 years”, *The Financial Times*, August 16, 2017

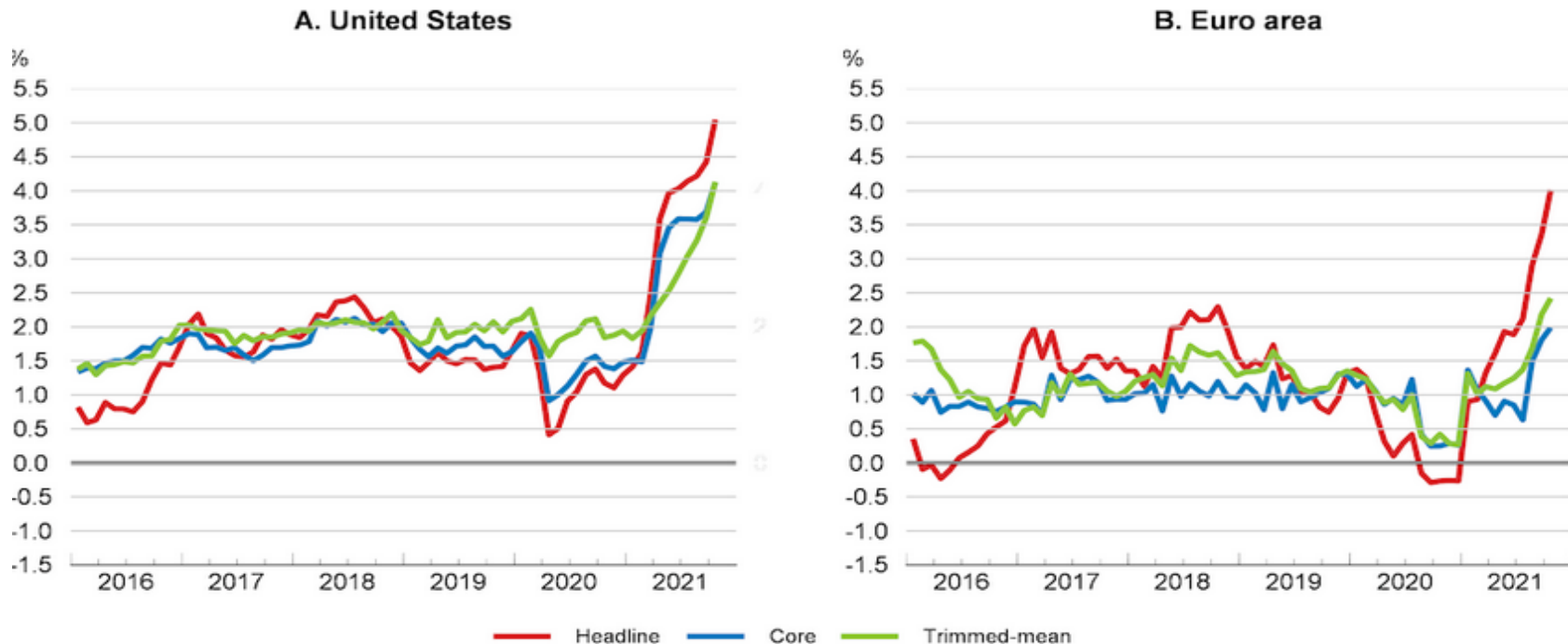
This time really is different

Bank of England official lending rate (%), 1694-2017



Graphic by Claire Manibog and Martin Wolf Source: Bank of England © FT

# But now inflation is rising... rapidly?



Headline = normal consumer price index; Core = excludes energy and food-related products; Trimmed-mean inflation trims 10% in terms of weights at the top and bottom of the distribution of the year-on-year growth of prices. Ibid OECD.

OECD, *Economic Outlook*, Vol 2021, Issue 2, December 2021.

# Mervyn King: IMF, November 2019

“Following the Great Depression, there was a period of intellectual and political upheaval. First, Keynesian and then rational expectations revolutions altered our views on economic policy. No-one can doubt that we are once more living through a period of political turmoil. But there has been no comparable questioning of the basic ideas underpinning economic policy. That needs to change.”

# Covid-19 - fragmentations

- Conflict within countries (masks/vaccines)
- Weakening cooperation between countries:  
no coordinated global health campaign
- Increasing inequalities *within* countries and  
maybe *between* countries
- Rise in absolute global poverty



1/ What is economics? What is political economy?

# What is Economics?

- **Merriam-Webster** (30 Jan 2020)

<https://www.merriam-webster.com/dictionary/economics>

Economics : a social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services

- **Lionel Robbins (1932):**

“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative resources” (the key “mainstream” definition)

Jean Tirole (sole Nobel winner 2014) elaborates and develops this in his book *Economie du bien commun* (2016) – *Economics for the common good* (2017)

- We all react to incentives
- The “common good” – institutions to reconcile individual and general interest as far as possible
- If the availability of a good is limited ... then its use must necessarily be privatised one way or another
- public authorities must make agents responsible for use resources
  
- But institutions (including the market), a “right” or a public economic policy take on lives of their own
- Economics can offset this
- The role of economists is not to decide, but to identify the “regularities which structure the economy and to share what economics as a science says given the state of its knowledge”
- Homo oeconomicus – economic man – assumed to be rational – we now know this not to be true.

# Dani Rodrik, *Economics Rules*, 2016.

- Positive and normative economics – inevitably come together in models (the word itself having both meanings)
- Maths is important for consistency
- Different models – even paradigms – are useful in different situations.

We need a palette of models.

# Political Economy of the Classics

- Smith: *Wealth of Nations* – statement of economic liberalism.

But also a description of nascent capitalism and the invention of economics as a science

- Marx (and Engels): the foundational critique of capitalism and economics

# In reality all markets need rules

Political economy examines how these are made, and how government policy is made and functions.

Public choice and neo-classical analysis of political process.

Historical and political analyses

# Political economy and embedded markets

Karl Polanyi in *The Great Transformation*, 1944.

*A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere.*

*[Yet] To allow the market mechanism to be sole director of the fate of human beings and their natural environment... would result in the demolition of society.*

**Labour, land and money should not be commodified.**

2/ What is capitalism?



# What Is Capitalism?

- Michel Albert (heroic and simple). « *La fonction historique inouïe du capitalisme a été, depuis environ trois siècles, de commencer à faire reculer la pénurie, la famine et l'oppression des tortures sacrificielles... le capitalisme, c'est-à-dire la libre fixation des prix sur le marché et la libre propriété des moyens de productions... [un ensemble avec] les droits de l'homme et pour commencer la liberté de conscience... »*

Mervyn King, *The End of Alchemy*,  
London, Little Brown, 2016

- “Over many years, a capitalist economy has proved the most successful route to escape poverty and achieve prosperity. Capitalism, as I use the term here, is an economic system in which private owners of capital hire wage-earners to work in their business and pay for investment by raising finance from banks and financial markets.” p17

# Marx and Engels

- “Commodification” of human activities, of human beings and of nature.
- “The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe.” (*The Communist Manifesto*, 1848)
- Immanuel Wallerstein: expansion of capitalism seeks labour (women and countries): the international division of labour is based on race. (*Historical Capitalism*, 1983)

# Other characteristics of capitalism

- Accumulation
- “Irrational” production: luxuries and penury of basic goods > production for solvent demand and not human needs
- Credit and Debt – the ability to borrow, the willingness to lend – connects future and present
- Capitalism is crisis prone – especially in the financial sector
- But it also allows risk management

3/ Some new perspectives of  
economics to explore

# Katrine Marçal: *Who Cooked Adam Smith's Dinner?*, 2016.

A whole continent of economic thinking – feminist economics – which men have ignored.

And which you have not studied.

And which may provide key insights into a different approach to economics, needed in this age of global warming.

> Wikipedia: feminist economics

## *Narrative economics: from Shiller to Harrari?*

- Robert Shiller: “narrative economics” study of spread and dynamics of popular narratives > economic fluctuations (the Laffer Curve)  
(Russ Roberts: Laffer curve and Keynesian multiplier, liked by economists and politicians because they suggest possibilities of a free lunch)
- Yuval Harrari – Sapiens – humans succeed because they organise in groups around stories

# Complexity Theory

- Beyond “Newtonian” physics : assumptions
  - (1) relationships between individual components of any system can be understood by isolating the interacting parts,
  - (2) there is a predictability to the relationship among the parts, and
  - (3) the result of interactions and the working whole might eventually be understood by simply summing the parts.
- Monetarism (late 1970s early 1980s):  $MV=PT$
- Taylor Rule (early 1990s) :

$$i_t = \pi_t + r_t^* + a_\pi(\pi_t - \pi_t^*) + a_y(y_t - \bar{y}_t).$$



# Non-Linearities

- Complexity theory seeks to explain non-linearities
- more sophisticated models from physics, biology, ecology and social world (Epple & Rhodes)
- It is not a unified and homogenous theoretical perspective > a dynamic representation of the phenomena (El-Ghalayini)

# Complexity in Economics

## Traditional economics

## Complexity economics

Dynamics	<ul style="list-style-type: none"> <li>■ Closed, static, linear systems in equilibrium</li> </ul>	<ul style="list-style-type: none"> <li>■ Open, dynamic, non-linear systems not in equilibrium</li> </ul>
Actors	<ul style="list-style-type: none"> <li>■ Collectively modeled</li> <li>■ Make decisions using complex deductive calculations</li> <li>■ Comprehensively informed</li> <li>■ Failure- and bias-free</li> <li>■ No learning or adaptation requirements</li> </ul>	<ul style="list-style-type: none"> <li>■ Individually modeled</li> <li>■ Make decisions using inductive rules of thumb</li> <li>■ Incompletely informed</li> <li>■ Prone to bias</li> <li>■ Capable of learning and adaptation</li> </ul>
Structure of ties	<ul style="list-style-type: none"> <li>■ Modeled on the basis of actors' indirect interactions through market mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>■ Modeled on the basis of direct interactions between individual actors</li> </ul>
Emergence	<ul style="list-style-type: none"> <li>■ Micro- and macroeconomics remain separate</li> </ul>	<ul style="list-style-type: none"> <li>■ Micro- and macroeconomics are linked</li> <li>■ Macro-level models are emergent results of interactions at micro level</li> </ul>
Evolution	<ul style="list-style-type: none"> <li>■ No mechanism for renewal of the system or increase in order and complexity</li> </ul>	<ul style="list-style-type: none"> <li>■ Evolution process based on selection, mutation and amplification provides for renewal of the system and the increase in order and complexity</li> </ul>

Jan Arpe, "Globalisation and its Complexity: Challenges to Economic Policy", 2012, Bertelsmann Stiftung

Quoted from:  
Belnhocker, 2006, Table 4-1

# (Some) Key Concepts

- **Attractors:** elements of order – patterns of replicated behaviour: values, norms and logics Not feedbacks, but influences.
  - **Emergence:** of “bottom-up” behaviour, limits power “top-down” rules and structures
  - **Feedback:** “reinforcing” or “balancing” interactions
  - **Path dependency**
  - **Bifurcation** (paradigm shifts)
  - **Self-organisation:** local responses to system dysfunctions
  - **Scale:** change effects that are not constant
- VALUES – to guide policies**

# Big Data and Artificial Intelligence

- Big Data
- Computer power – artificial intelligence
- A quantitative leap in modelling
  - > **solving “restricted complexity”**  
(within same epistemological framework)
- But how does complexity connect to policy?
  - A tendency to look for simple ideas

# Open-minded scientific approach

- Falsification defines science
- We need to accept that our (individual) knowledge is very limited
- Modesty in approach
- Explanations are partial
- That does not mean “anything goes”; all ideas are equally entitled to be aired: “alternative facts”, etc.

# Radical Doubt

Modernity institutionalises the principle of radical doubt and insists that all knowledge takes the form of hypotheses: claims which may very well be true, but which are in principle always open to revision and may have at some point to be abandoned.

*Anthony Giddens, *Modernity and Self-Identity: Self and Society in the Late Modern Age*, Cambridge, Polity, 1991.*

# My own values

*All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.*

## **Universal Declaration of Human Rights, 1948.**

Economic and social rights, as well as political rights

(Coherent with Rawls and Sen)

## **Saadi translated Ali Salami:**

*Human beings are limbs of one body indeed;  
For, they're created of the same soul and seed.  
When one limb is afflicted with pain,  
Other limbs will feel the bane.  
He who has no sympathy for human suffering,  
Is not worthy of being called a human being.*

Solidarity (Smith: Sympathy)

# UN Charter - Preamble

- **WE THE PEOPLES OF THE UNITED NATIONS DETERMINED**
- to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind, and
- to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the **equal rights of men and women** and of nations large and small, and
- to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained, and
- **to promote social progress and better standards of life in larger freedom,**
- **AND FOR THESE ENDS**
- **to practice tolerance and live together in peace with one another as good neighbours,** and
- to unite our strength to maintain international peace and security, and
- to ensure, by the acceptance of principles and the institution of methods, that armed force shall not be used, save in the common interest, and
- to employ international machinery for the promotion of the economic and social advancement of all peoples,
- **HAVE RESOLVED TO COMBINE OUR EFFORTS TO ACCOMPLISH THESE AIMS.**



# Takeouts

- No steady state: the environment in which agents and policy-makers operate is always changing
- Neo-classical (mainstream) economics tends to examine static situations – and assume that the institutional, legal and political environment is given
- The GFC and Covid crises have been massive challenges – as is global warming
- Economics as a science and guide to public policy has provided only partial responses
- Power politics is challenging the international system created after WWII

Thank you for your attention 😊

