

Some Takeouts on the Political Economy Course

Adam Smith and the classical economists studied political economy. This was a very wide-ranging approach to look at all sorts of economic phenomena: the division of labour, markets, value, money, trade etc. Significantly, Smith also tried to provide a historical analysis of economic development and what we now call capitalism. The extensiveness of his work, which began with philosophy, partly explains why he is still read today. For some, like Kieron O'Hara, Smith's writings, and his essential moderation, even if he is simplistically associated with economic individualism, make Smith the most influential thinker of the [Enlightenment](#):¹ the philosophical movement in Europe and North America during the 17th and 18th centuries and which developed science, reason and individual rights as principles for organising society in place of religion and autocracy.

Marx (and Engels) in turn provided an overall critique of classical economics. Using the labour theory of value first set out by Smith, and drawing partly on Ricardo's notion of conflict between landowners and capitalists, they argued that capitalism is based on the exploitation of workers: capitalists obtain profits from paying workers only the money needed to provide them with the necessities to live and reproduce, and thus enabling capitalists to capture the "surplus value" also produced by workers (i.e. the difference between the value workers receive as wages and what they produce). This expropriation of value, and the private ownership of the means of production are the underlying causes of class struggle. Marx and Engels also explained how capitalism seeks to transform all human activity into commodities: i.e. goods and services that are produced for sale into the market. Their arguments about the rapaciousness of capitalism, are set out in Chapter 1 of the [Communist Manifesto](#) (1848), for example, which still describes quite well the functioning of globalisation in recent decades. They also pointed out that capitalism goes through crises of falling profits, over-accumulation and commodity gluts. Their views on this, largely developed in *Capital*, are not easy to understand nor always very clear. But essentially as production involves every greater quantities of machinery and plant (capital) and as capitalists try to reduce labour costs, the rate of surplus value and hence profit declines. Similarly, as workers are only paid what they need, but more is produced, capitalism lead to gluts. Financial crises may also take place when the value of financial assets exceeds the real value of goods and services produced, and such paper assets become worthless, etc. Marx and Engels also pointed out, among many other things, that capitalist accumulation – the imperative of individual capitalists to expand their business and capitalism as a whole to generate every greater quantities of commodities – is irrational in the way it concentrates wealth, and leads to the production of luxuries while basic human needs are unmet.

Today's mainstream economics ignores many of these issues as such, an approach that can be traced back to the marginal, neoclassical revolution in the late 18th century, when economics abandoned the search for trying to explain value based on labour. Instead, the new science turned to geometry and mathematics to explain how prices are set as a function of utility and profit maximisation. The interactions of agents in markets thus lead to partial equilibriums between supply and demand at the market price. When these partial equilibriums are aggregated, they lead to a general equilibrium, in which movements in any one market may spread throughout the economy.

In his recent book [Values, Mark Carney](#) (the former governor of the Bank of Canada and then the Bank of England) notes that this shift from an objective to a subjective theory of value strips out the philosophical basis of economics and any concern for "justice" or a "just price" in exchange. In other words, anything which cannot be priced is "neither valued nor valuable". Carney notes this recalls Oscar Wilde's aphorism that a cynic is "a man who knows the price of everything, and the value of

¹ Kieron O'Hara, *The Enlightenment: A Beginner's Guide*, One World, Oxford, 2010, p 212.

nothing". In almost neo-Marxist terms, Carney goes on to point out that as public services have been increasingly privatised, "we have moved from a market economy to a market society, [and] this is now undermining our basic social contract of relative equality of outcomes, equality of opportunity and fairness across generations". In *Capitalism, Alone*, Branko Milanovic makes the same point about how hypercommercialised capitalism is now commodifying homes and family life, as services like cooking and cleaning are easily bought in and homes are rented out via internet: households can thus reduce the opportunity cost of leaving their homes empty – of leaving their assets idle – for example, when they go on holiday.²

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This course on "political economy" takes a more historical and institutional approach to economics, looking in particular at how historical events – including shocks like the global financial crisis, Covid-19 and now the new war in Ukraine – impact economics and economic policy, and how economic theory in turn informs government policy.

The approach is diverse, in line, arguably, with [Dani Rodrick's argument](#) that we need a palette of theories to explain how economies, markets and policies actually function.

There is no over-arching theory, no single approach to examining the issues we will look at in class. In some ways, this is a weakness. But it perhaps also reflects the complex world as it is. More prominent thinkers have gone down this road, such as Susan Strange who was a leading international political economist and who was not looking for a [grand theory](#).

Although I am a bit sceptical about interdisciplinary comparisons, I could also note that while economists are often said to suffer from "physics envy" (they like to establish hard relationships like Newton's laws), physics itself lacks a [Theory of everything](#). Put very simply, both general relativity and quantum mechanics are highly developed theories which have been widely tested, and not refuted. In terms of hard science, they are as good as it gets. But – if I understand correctly – they are incompatible, and so there is no theory of everything.

Also, the world and the global economy is becoming ever-more complex. A whole new field in complexity theory applied to social sciences and [public services](#) exists. It too draws on complexity theory in science, and put simply, the notion that many systems are non-Newtonian: i.e. you do not get simple cause and effect relationships, like $f=ma$. Or again, put simply, $MV=PT$ did not work as a policy guideline. It is not easy to adapt complexity theory to economics or political economy, although some people hope that with sufficient computing power, big data and ultra-sophisticated modelling systems may be modelled and analysed in a predictable way – maybe. Personally, I feel that the key insight of complexity theory is to warn us about making very strong conclusions.

Also, the use of complexity theory in public policy seems to stress in the importance of values in dealing with what are often the unknown and unpredictable evolutions of events. From this point of view, my own values can best be summarised by the ideas set out in the [UN Charter](#) (see the preamble and Chapter 1 in particular) and the [Universal Declaration of Human Rights](#) (1948). These are again emanations of the Enlightenment. They are arguably therefore western and male-oriented. But they were signed by the representatives of many nations and cultures, and they provide the basis of the rules-based approach to international relations and the universal rights all humans (should) have on the basis of their common humanity ([see this video for example](#)).

² Branko Milanovic, *Capitalism, Alone: The Future of the System that Rules the World*, Cambridge Mass., London, Belknap, 2019, pp 190-5.