

Globalization and All That

Last Week: Tariffs and stuff..

- ▶ Protectionism
- ▶ Economic Nationalism
- ▶ Beggar thy Neighbor Policies
- ▶ Other tactics:
 - ▶ Import Quotas
 - ▶ Anti-dumping
 - ▶ Regulatory policies
 - ▶ Exchange Rate control
- ▶ Infant Industry Argument
- ▶ Protect critical economic sector – military?
- ▶ Protect jobs/domestic industry
- ▶ Retaliation
- ▶ Political support in general
- ▶ Policy known as “**mercantilism**”
- ▶ Contrasts to Free Trade?

Empires and Globalization

- ▶ Not new – Spanish, Dutch, British built on trade in gold, silver, spices
- ▶ Built on Feudal systems of Europe – closely aligned with Conservatism
- ▶ Slavery and some "international" companies
- ▶ Trade and slavery create "profits" or excess capital for some – investment combines with technology to create Factory System

Industrial Revolution and Capitalism

- ▶ Industrial Revolution begins in mid-18th. Century in UK
- ▶ Capitalism as a system begins to emerge with the Industrial Revolution in the UK
- ▶ New Economic Theory emerging – **classical economics**
- ▶ New Political Theory – "**liberalism**" to change how we think of government and its purpose

History in Transition

Feudalism  Capitalism

Classical Economic Theory – the Free Market and Free Trade
"classical economics"

Conservatism  Liberalism

 Socialism/social-democracy (in Europe)

Capitalist UK dominates world trade and system using free trade
And liberalism (sort-of)

20th. Century

Rise of trade unions and social reformers
Modern liberalism calls for more government intervention
Socialism critiques liberalism and capitalism

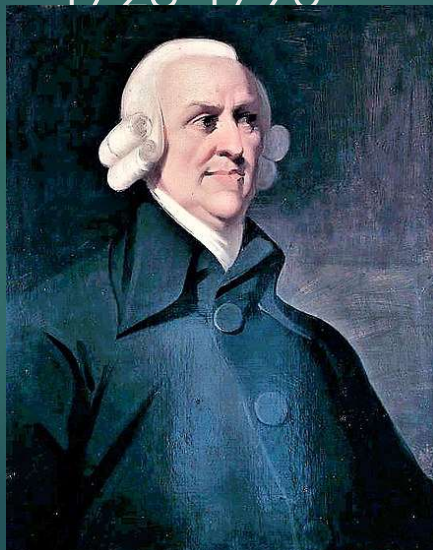
UK declines after WW1 and WW2. Replaced by USA as
dominant economic power

After 1945 US leads world system developed under "neo-
classical economics" also called neo-liberalism and
globalization under these views

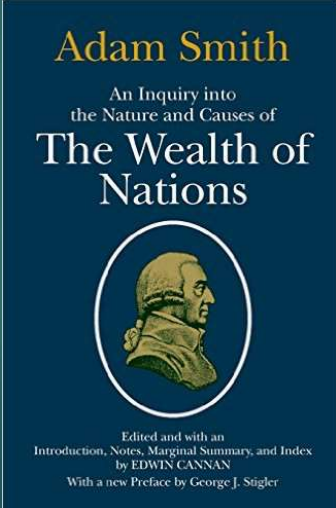
War Changes Everything World War 1 ended European Empires and Changed the world

- ▶ Total deaths – 11 million military, probably another 8 million civilians...possibly another 50-70 million from disease, especially Spanish Flu
 - ▶ The first day of the Somme offensive, July 1, 1916, resulted in 57,470 British casualties.
 - ▶ By the time the offensive ended in November, the British had suffered around 420,000 casualties, and the French about 200,000. German casualty numbers are controversial, but may be about 465,000. About 1.2 m. in 4 months

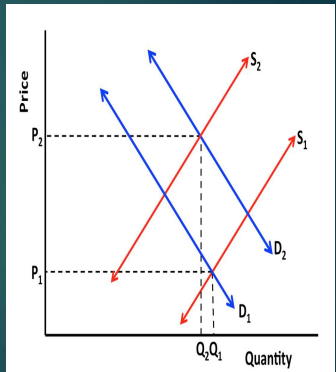
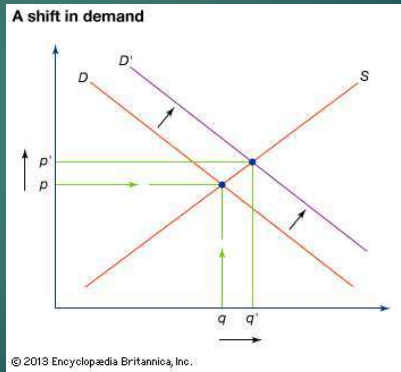
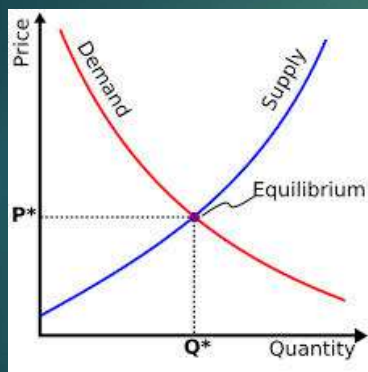
Adam Smith
1723-1790



Liberal Economic Theory



Supply and Demand



Invisible Hand

- ▶ The Market best served by rational individual choices
- ▶ The Market looks to be steered by an invisible hand because of the rationality of the individual choices
- ▶ The “invisible hand” would thus be collective individual rationality
- ▶ Rationality is based on competition and self-interest
- ▶ Interplay between self-interest and competition takes the sharp edges off self-interest

David Ricardo

- ▶ Smith saw States acting as Individuals on the international level
- ▶ Free trade makes states efficient, stimulated industry, encourages innovation, and creates a “greater benefit”
- ▶ International trade a positive-sum game: everybody benefits

David Ricardo (1772-1823)

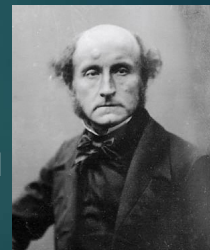


Comparative Advantage

- ▶ The effectiveness of the Market through International Trade leads to specialization
- ▶ States produce what they are the most efficient in producing in a competitive market place
- ▶ Effectiveness based on the amount of labor inserted into production
- ▶ Comparative advantage promotes trade and specialization

John Stuart Mill 1806-1873

- ▶ Wrote during 19th century and Industrialization
- ▶ It did not look that the market worked to the self-interest of the factory worker
- ▶ State therefore needed to provide corrective action to supplement the market
- ▶ Selective action by the state to promote education and social welfare when individual could not provide



Jeremy Bentham 1748-1832

Founder of modern utilitarianism. Bentham the principle that "it is the greatest happiness of the greatest number that is the measure of right and wrong".



Main Dog - Jack



Executive Back-Up Dog - Opie



The Manchester Liberals

- ▶ Mill, Ricardo, Bentham all define how we think about markets and trade. These ideas reemerged to structure globalization in the last several decades
- ▶ Liberalism is challenged on the Left by Socialism, on the Right by Conservatives after the middle of 19th. Century
- ▶ All are "theories" about human society, but also ideologies.

So, what's a Theory?

What's an ideology?

The Political Theory of LIBERAL-PLURALISM

Origins:

- ▶ John Locke "father" of liberalism: "life, liberty and property"
- ▶ English Civil War "consent of the governed" Bill of Rights
- ▶ French Revolution
- ▶ American Revolution

Age of Enlightenment.....political ideas very suited to the new capitalist structure.

Basis of the first parliamentary democracy – the UK.

Tenets of Classical Liberalism

- ▶ Individual have natural rights
- ▶ Individuals are equal under the law
- ▶ Government should be limited
- ▶ Government's #1 purpose is to serve individuals
- ▶ societal power is decentralized, widely shared, diffuse and fragmented, deriving from many sources, i.e. power pie divided into many pieces
- ▶ society consists of many diverse groups and associations (e.g. business, labour, professional, religious, etc....) and constitutes a conglomeration of dissimilar and often conflicting interests, no none of which plays a singularly dominant role, through a process of democratic competition the nature and direction of society are determined
- ▶ society is made up of a multitude of conflicting interest groups balanced by the state, groups are equally influential in their impact on government policy and major institutions

LIBERAL-PLURALISM

- ▶ Role of the government/state:
 - ▶ Society is a struggle of competing groups within an arena refereed by the state
 - ▶ State represents institutionalized power and authority
 - ▶ State is supreme guardian of representative democracy in modern society, from tension paves way for political competition and pluralist democracy
 - ▶ State serves neither its own interests nor those of any single group or class
 - ▶ State can act as bargaining agent or mediator – a referee?

Social Contracts

- ▶ Much of liberal thought is based on the idea of a social contract – and this is because we are all born free, and we are all reasonable
- ▶ Many liberals believe that the justification for having a government lies in the fact that we are all free, but we must choose to give up some of our freedom in order to protect ourselves from other people.

Modern Liberalism

- ▶ This came about in response to some of the horrors of the industrial revolution .and unrestrained capitalism
- ▶ Modern liberalism is not fearful of government power. Instead, government power can be a force for good, limiting the worst conditions of poverty, illiteracy, racism, exploitation, etc.
- ▶ Government starts to do many more things – welfare, health care, regulation, etc.

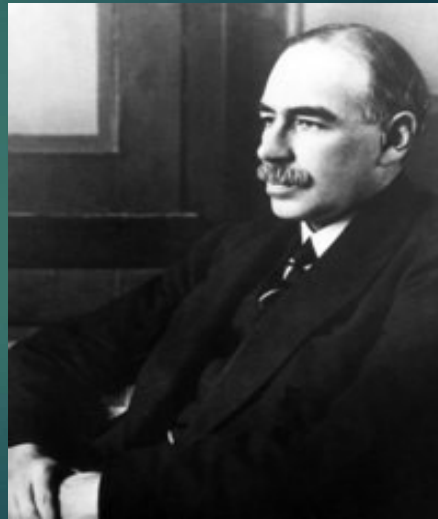
Explaining the Crisis – A Different View

▶ https://www.youtube.com/watch?v=qOP2V_np2c0

John Maynard Keynes 1883-1946

Great Depression viewed as an example of serious flaws in the market, especially during periods of risk, uncertainty, and ignorance.

Keynes favored state – government intervention - action to shore up market failures and an activist macroeconomic policy



Keynes: Government should do more stuff

- ▶ The Paradox of Thrift illustrates Keynes's view that rational individual actions can produce irrational collective outcomes. When all individuals rationally save, they collectively become poorer as economic activity slows. Government can compensate for the invisible hand's failure by spending when individuals do not.
- ▶ Keynes participated in the birth of the Bretton Woods system that established several institutions that organized much of the international political economy following World War II.
- ▶ While Bretton Woods sought to create a liberal system of *international* economic relations among Western member states, individual nations would be allowed to support domestic markets and insulate them from depressions and other economic dislocations.

Government should do more stuff:

- ▶ The invisible hand could fail, self-interest could be rational for the individual and at the same time collectively be irrational
- ▶ For example: Paradox of Thrift
When faced with unemployment people would start spending less to save for hard times, but if everybody did so → less would be bought → downturn in production → more unemployment → recession
- ▶ State should offset collective irrationality through spending and borrow to do it....