

# ECOP1001 Notes

Semester 1, 2017

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## L1: Introduction and Understanding

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| What              | Economics is a social science discipline that demonstrates the study people and their relationships to society within a wide scope and many different fields. Economics is also a discipline made up of different schools of economic thought and highlights competing views about which problems are important and whether their cause and best solutions entail.  |
| Why               | To understand real-world issues by analysing the connections between <b>economic problems, social structures and political processes</b> . This approach also differs from the common UG teaching of economics as different schools of economic thought dominate during different periods of economic history. For any economic issues, there are different and competing explanations. ----- broader approach <ul style="list-style-type: none"><li>• Addressing global issues i.e. war/conflict<ul style="list-style-type: none"><li>◦ Production - economy - market - needs and demands - social effects: national economy through migration i.e. Syria</li></ul></li><li>• Market (hospitality)<ul style="list-style-type: none"><li>◦ Production - labour/food costs - changing labour costs and trying to find the cheapest solution - marketing through changes to agricultural/labour practices</li><li>◦ Manufacturing</li></ul></li><li>• Production i.e. agriculture<ul style="list-style-type: none"><li>◦ Changes to traditional practices having effects on wildlife - implications for food production</li><li>◦ Environmental effects i.e. BP - example of carbon effect - effects for tourism and national economy</li><li>◦ Economic relationships with the environment - depredation of the environment</li><li>◦ Labour - slave trade - poverty - inequality<ul style="list-style-type: none"><li>• How can economies grow and change?</li></ul></li></ul></li><li>• Media i.e. Sport<ul style="list-style-type: none"><li>◦ Crime</li><li>◦ Social effects</li></ul></li></ul> |
| Different schools | <ul style="list-style-type: none"><li>‣ Classical political economy</li><li>‣ Marxist Economics<ul style="list-style-type: none"><li>• critical interpretation on capitalism</li></ul></li><li>‣ Neoclassical economics<ul style="list-style-type: none"><li>• emerged when conditions were more prosperous - capitalism became the norm - notion around a free market</li></ul></li><li>‣ Institutional economics and Keynesian economics<ul style="list-style-type: none"><li>• changes to big institutions - 20th C - overall view that the economic system of capitalism couldn't guarantee employment - government involvement</li></ul></li><li>‣ Contemporary political economy (heterodox economics)<ul style="list-style-type: none"><li>• collection of contemporary conditions - asks analyses what, what etc.<ul style="list-style-type: none"><li>• What is happening</li><li>• Why</li><li>• Who gains and loses</li></ul></li></ul></li></ul>  |

- Does it matter
- If so, what can be done and by whom
- Competing and different economic solutions over time
- Different schools ruled over different historical times

This political economy unit How can we understand the economic system, how can we define and analyse the economic system of capitalism, how does capitalism work, what is economic prosperity and economic crisis? Then, we will progressively consider the different schools of economic thought. The changing conditions which influenced their development. Their primary concerns, analytical focus and policy prescriptions; then, compare.

- There are also 4 key themes
- Economics is a means of understanding
    - What shapes the process of growth, change etc.
  - Economics is not a settled set of theories and facts
    - Different econ schools of thought
    - Providing different insights - be critical of different schools w
  - Insights into current problems and policy issues from different schools of economic thought
  - Each school of thought has distinct political philosophies (values), research methodologies, and analytical tools
    - Different views of economy-society relationship

#### COMPARE AGAINST DIFFERENT SCHOOLS OF THOUGHT

What is the underlying political philosophy underpinned the nature of the thought (observation and experience)

What is an economic system

- The economic system is a system to provide for human needs.
- As human history, has seen people organise their economic activities differently i.e. Slavery, Feudalism, Capitalism, Socialism. An economic system determines such as what work is done, how it is done, by whom it is done, and who gets the output (product) of that work.
  - To produce the goods that support life
- ECONOMIC SYSTEMS ARE SOCIAL RELATIONSHIPS BETWEEN PEOPLE.
  - Economic relationships may also be direct, local or even global, shaped by customs, technology and the basic social and geographical laws that we abide to.
  - Social relationships between people - social relationships define the economic system
    - Producers and consumers/borrower and lend/employer and employee - defining an economic system
      - Can be indirect or direct

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| The discipline of economics       | <p>The focus of economics is not just how the economy works but what is good or bad, and how might it work better. Mainstream economists understand the economy as a system of markets. On the other hand, Political economists take a much broader view emphasising on</p> <ul style="list-style-type: none"> <li>› Evolution and change</li> <li>› equity and sustainability</li> <li>› the role of institutions</li> <li>› explicit values <ul style="list-style-type: none"> <li>• The way in which we analyse issues - judgements about issues, what assumptions are made</li> </ul> </li> <li>› interdisciplinary character <ul style="list-style-type: none"> <li>• the social character and political decisions of economic activity</li> </ul> </li> </ul>  |
| The economic society relationship | <ul style="list-style-type: none"> <li>› The environment <ul style="list-style-type: none"> <li>• All economic activity takes place within the environment</li> <li>• Conversion, extraction and transformation of natural resources</li> <li>• Process may be restorative or damaging</li> <li>• Use of natural resources</li> <li>• Relationship between economic activity, processes and the environment - built environment and the relationships within</li> </ul> </li> <li>› Markets <ul style="list-style-type: none"> <li>• Where exchange occurs (goods and services) interaction</li> <li>• Cannot solve all economic problems</li> <li>• Cannot operate without certain structure or underpinnings e.g. rules, rights, contracts</li> <li>• Conditions such as price/production change relationships and create provisions</li> <li>• Dependant on certain structures i.e. the state</li> </ul> </li> <li>› The state <ul style="list-style-type: none"> <li>• Key role supporting markets and economic processes</li> <li>• Direct and indirect economic roles determined by political decisions</li> <li>• The role of the state is an intensely political issue</li> <li>• Exchange/distribution/government/institutional enterprises (gov. or private) direct involvement <ul style="list-style-type: none"> <li>◦ Tax, privatisation of social institutions i.e. medical --- level of government involvement in the control of these factors</li> </ul> </li> </ul> </li> <li>› Class <ul style="list-style-type: none"> <li>• Capital and labour; Owners of the means of production (engages labour - labour for wages) and those who sell their labour for wages <ul style="list-style-type: none"> <li>◦ Distinct class divide between capital and labour <ul style="list-style-type: none"> <li>• Relationship <ul style="list-style-type: none"> <li>▪ Differences in income, wealth, power and more</li> <li>▪ Conflict/cooperation/compromise</li> </ul> </li> </ul> </li> </ul> </li> <li>› Gender and ethnicity <ul style="list-style-type: none"> <li>• Division of labour from discrimination and institutions</li> <li>• Shape relationship between economy and society</li> <li>• Changes over time although still clear divisions <ul style="list-style-type: none"> <li>◦ Discrimination <ul style="list-style-type: none"> <li>• Gender - unequal wages</li> <li>• legal system</li> </ul> </li> </ul> </li> </ul> </li> </ul> </li></ul> |

- Social capital (community)
  - Networks of social [interpersonal] relationships fostering social cohesion and trust
  - Cultural attitudes - shapes economy-society relationship
- Ideology
  - Beliefs that shape behaviour to support prevailing arrangements in the previous dimensions
    - e.g. consumerist values and economic system organised to produce more and more goods

(the relative importance of each dimension in shaping the social-economic relationship varies)

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| Evaluating economic performance | <p>What works well in an economy and what does not? How do we evaluate?</p> <ul style="list-style-type: none"> <li>‣ Efficiency           <ul style="list-style-type: none"> <li>• Avoidance of waste</li> <li>• Production of useful goods and services (advertising? (useful))</li> <li>• Not leaving resources unused - labour</li> </ul> </li> <li>‣ Equity           <ul style="list-style-type: none"> <li>• Fairness               <ul style="list-style-type: none"> <li>◦ Relationships, income</li> </ul> </li> <li>• Equality of economic outcomes OR opportunities?</li> </ul> </li> <li>‣ Sustainability           <ul style="list-style-type: none"> <li>• Reproduction of the economic system? Is the system capable of reproducing itself - moving forward - at what cost?</li> <li>• Use of non-renewable and renewable resources?</li> </ul> </li> <li>‣ Social objectives (test of economic performance)           <ul style="list-style-type: none"> <li>• Does the economic system serve society well?</li> <li>• Importance of social goals and how can they be measured?               <ul style="list-style-type: none"> <li>• Conventional measure of the national economy:</li> <li>• GROSS DOMESTIC PRODUCT; Total market value of all goods and services produced (including that by government) i.e. If greater than previous year = ECONOMIC GROWTH</li> <li>• Widespread application however, this may incur problems with GDP as an economic barometer i.e.                   <ul style="list-style-type: none"> <li>• Growth of what?                       <ul style="list-style-type: none"> <li>• 1. Everything sold with monetary value BUT may not improve well-being (environmental degradation or resource depletion)</li> <li>• 2. Many activities not included BUT they do improve well-being (volunteer work, domestic work, care, legal transactions)</li> <li>• 3. Only measures <b>outputs not outcomes</b> – measures ‘having’; does NOT measure well-being</li> <li>• 4. No account of income distribution or leisure or what happen to typical citizens</li> </ul> </li> <li>• Growth for whom?</li> <li>• Growth BUT social inequalities i.e. Vast number in poverty and handful of rich</li> <li>• What alternative is there to GDP?</li> </ul> </li> </ul> </li> </ul> </li> </ul> |
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- Alternative indicators; Human Development Index, Gender Empowerment Measure, Human Poverty Index, Index of Social Health, Index of Economic Well-being --- more social objectives, all aim to encapsulate with human wellbeing in a single figure, if we really want to understand progress, can it come down to a single figure -- what is and isn't considered
- BUT all aim to encapsulate in a single figure

- Key Points**
- Economic systems = relationships between people
  - Social relationships between people (economic actors)
    - define an economic system i.e. the social character of economic activity which can be seen through many (7) dimensions ---- (slavery, feudalism, capitalism)
  - How best to judge economic performance? i.e. Limits of using the conventional measure of GDP

## L2: Defining and analysing Capitalism

Economic systems

There are four key examples of economic systems defined by

- How labour is organised
- How the output produced is distributed between people
- Economic relationships between people
- Set of relationships

These systems are

- Slavery (issue of property rights as a slave)
- Feudalism
  - Lords and surfs
    - Systems of mutual rights and obligations
- Capitalism
  - Employers and workers
- Socialism

Economic activities can be organised in various arrangements as different economic actors will prioritise different goals, and pursue those goals in diverse ways.

- i.e. produced max profit
- Give ordinary people more involvement

These are all political questions involved decisions creating power and determine how economic activity is organised i.e.

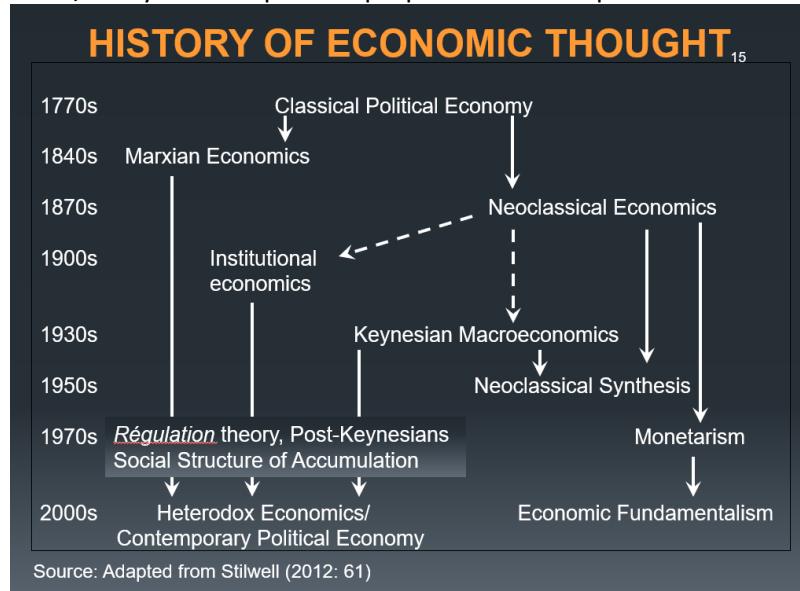
- Market orientation
  - Production decisions guided by business owners desire for profits
  - Distribution according to people's willingness to pay
  - Very little state involvement beyond e.g. private property rights
  - Labour is engaged and organised according to its 'price'
  - Advantages included economic growth and global linkages
  - Disadvantages include widening inequality i.e. people with disabilities or disadvantages may not be able to find a job. The market may also be unstable due to changing prices and losing jobs i.e. 2008 recession
- State orientation
  - State is active planner and coordinator of economic activity
  - Production and distribution decisions based on the need of citizens
  - Taxation is used to pay for goods and services and to redistribute income
  - State can protect labour from e.g. discrimination, unsafe work, wages being paid below agreed level
  - Advantages include a more responsive approach to the needs of citizens and a willingness to pursue important social and environmental goals such as providing free education or investing in renewable energy
  - Disadvantages however show that the state does not always act in the best interest of the citizens, demonstrating corruption within the government and can be inefficient, not always guided by cost
- Community orientation
  - Economic activities decided and carried out by community members
  - People voluntarily cooperation to produce goods and services
  - Production and distribution on a smaller and more local scale, often with no money changing hands

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|                                 | <ul style="list-style-type: none"> <li>○ Labour is employed according to people's abilities</li> <li>○ Advantages may show that the community gives people power to make more informed consumption choice and with less waste as people only produce what will be consumed</li> <li>○ Disadvantages may lead to Nimbyism ("not in my backyard") blocking</li> </ul>   |
| Property rights                 | Property rights are the legal expression of social (class) relationships combined with ways to control labour processes. They are established to demonstrate the right to control, who can use/not use, what used for and who benefits.   |
| Defining features of capitalism | <p>Labour is organised to produce commodities (goods and services). Therefore, capital used in production is privately owned and controlled by a wage-labour relationship.</p> <p>1. Commodities are any goods or service produced with the intention of selling for profit. For commodity production to be capitalist production, there must be the social relationship of employers and workers. Furthermore, commodity production requires markets to sell and buy goods and services through a process of exchange. Thus, Capitalism's emphasis is on consumerism, however not all things produced are commodities.</p> <ul style="list-style-type: none"> <li>• Does not define capitalist by itself, for it to be capitalist there must be that social relationship between workers and consumers</li> <li>• e.g. Education as a commodity</li> <li>• Important to capitalism more than any other system</li> </ul> <p>2. Private ownership of capital: Private property is a social institution (or rule) that gives rights to individuals or firms. Privately owned capital goods are the means of production used to make a profit where the owner has the property right to determine use and the right to obtain income (profits, interest, rent) from those using their property. The owner also has the right to use and exclude others from using. Private ownership also demonstrates a distinct social class difference but only a minority and as one that controls the work of others.<sup>1</sup></p> <ul style="list-style-type: none"> <li>• Owners of private capital control the labour of others</li> </ul> <p>3. Wage-labour relationship classifies those that don't own capital goods or control the labour of others but work for employers. This is different from working for yourself as the labour time is sold; the capacity to work, in exchange for wages, work under direction and produced things that wage labour will not own. This class is most of the population where labour is treated as a commodity.</p> <ul style="list-style-type: none"> <li>• </li> </ul> <p>Others defining features of capitalism include</p> <ul style="list-style-type: none"> <li>• Finance: monetary system, bank-credit money (debit)</li> <li>• Role of the state: property rights, market, umpire <ul style="list-style-type: none"> <li>○ Ensuring economic and social stability</li> </ul> </li> <li>• Ideology <ul style="list-style-type: none"> <li>○ Reflects the state of the system</li> </ul> </li> <li>• Growth (expansionary tendency); and markets for commodities, labour, finance, production goods etc. <ul style="list-style-type: none"> <li>○ Driven by the need for growth and expansion</li> </ul> </li> </ul> |

Not all forms of capitalism are the same i.e. level of interest by the state etc.

## How to understand capitalism methodology

To do this, we need to theorise, then we can investigate the nature of economic and social relationships. Competing schools of economic thought are like paradigms - framework for analysis with methods to apply. These also often/always show a political purpose that underpins that economy serves.



- Paradigms
- Ideology is aligned with previous thoughts
- Give insights into contemporary policy and issues
- Changing economic issues at the time
- Influence of prevailing economic ideas

## Different theorising about Capitalism

- › Classical political economy
  - An economic system's capacity is based on market exchange
  - When capitalism started to emerge
- › Marxian economics
  - Capitalism generates inequality, conflict and crises
  - Critical of capitalism
- › Neoclassical economics
  - Free markets produce efficient outcomes
  - Built on the foundation of classical political
- › Institutional economics
  - Critical of business and consumer behaviours in capitalism
- › Keynesian economics
  - Focus on unemployment and the state is central
  - Economics could reform capitalism
- › Neoclassical synthesis
  - Keynesian macro and neoclassical micro
  - Coincided with freedom and growth
- › Monetarism
  - Capitalism works best when government interfered least
  - Blended ideas of Adam Smith
- › Economic fundamentalism
  - Free-market economics
- › Heterodox Economics/Contemporary Political Economy
  - Critical of classical economics/ orthodoxy

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| Key points                                 | <ul style="list-style-type: none"> <li>› Capitalism is the way of organising labour processes involving commodities, private ownership, wage-labour</li> <li>› Capitalism can be analysed in diverse ways           <ul style="list-style-type: none"> <li>• Different theories of knowledge influence economic analysis through different methodologies, analytical concerns, concepts</li> <li>• Different political philosophies influence policy prescriptions, view of the role of government</li> </ul> </li> </ul>   |
| How should economic activity be organised? | <ul style="list-style-type: none"> <li>› Relationship of market, state and community           <ul style="list-style-type: none"> <li>• Should economic arrangements be mainly market orientated, global and prioritise economic growth?</li> <li>• Should the state have a greater role and put more emphasis on social/environmental goals?</li> <li>• Should there be a greater focus on community and localised political economic organisation?</li> </ul> </li> <li>› Capabilities and limits of markets? Roles for government and community? Most effective means for economic progress and alternatives?</li> <li>› Need to understand political economic forces</li> </ul> |
| Changing economic conditions               | <p>The organisation of economic activity is constantly changing. We need to understand in its historical context and not simply the past. This shows patterns of economic changes that identify the forces driving economic change and show a dynamic historical view not a static view.</p>  |
| Economic change                            | <ul style="list-style-type: none"> <li>› From growth to uncertainty           <ul style="list-style-type: none"> <li>• Persistent economic turbulence</li> <li>• Capitalism's cyclical pattern of boom and bust               <ul style="list-style-type: none"> <li>◦ i.e. Inflation</li> </ul> </li> </ul> </li> <li>› The restructuring of capital (economic restructuring)</li> <li>› What is capital?           <ul style="list-style-type: none"> <li>• Capital goods</li> <li>• Money capital</li> <li>• Owners of capital (the capitalist class)</li> </ul> </li> </ul>   |