

Political Economy Tutorial 2: Marxism, Neoclassical econ., & Institutionalism



Milan Babic

m.babic@uva.nl

Department of Political Science - Political Economy and Transnational Governance

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Agenda

1.) Check-In & Recap

2.) Marxism today (group work)

Break

3.) Neoclassical Economics

4.) Institutional Economics (group work)

Check-In



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Where we are

- Prerequisites and Classical PE (**Tutorial 1**)
- Marxist, neoclassical and institutionalist PE (**Tutorial 2**)
- (I)PE: The long run and international affairs (**Tutorial 3**)
- 20th century and Globalization (**Tutorial 4**)
- The Great Recession and Crisis of World Order (**Tutorial 5**)
- Weaponized Interdependence and the Ecological Crisis (**Tutorial 6**)

Recap

- There is not one take on PE - multi-...
- PE means studying the (capitalist) economy from a social science perspective
- There are several key theoretical sources of the discipline
- Adam Smith is no “typical” economist - rather an encompassing social scientist
- Smith’s core problematique: The question of Social Order

What we are *not* doing today

- Marx as a person:

Berlin, I. 2013 [1937]: Karl Marx: His Life and Environment. Princeton: University Press.

- Capital as a book:

Harvey, D. 2010: A Companion to Marx's Capital. London: Verso Books.

Marxism

- Why would we be interested in Marx(ism) today - or why not?
 - Think about 1 point
 - Use Gamble 1999 if you like (or Eelke's Lecture)

1 min

Marxism

- Historical situation:
 - Feudalism to Capitalism: People 'go out' to find work
 - More control over workplace
 - But also more tensions: class struggle
 - Hence: Marxist analysis is about **production** (and later also exchange)
 - gives theory a rather critical spin

Marxism

- Group work: Basics of Marxist thinking
 - 3-5 people
 - Prepare a small pitch (& answer questions)
 - 10 minutes
 - Everything you need is in Stilwell Ch. 12 - 14! (and Google)

Marxism

- Historical Materialism, Dialectics and Praxis
- The Labour-Capital relationship
- Social Classes and Exploitation
- Mode of production, forces of production, relations of production
- Expansionary tendencies of Capitalism and commodification
- Uneven development and social change



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Marxism: Taste of Method

https://www.youtube.com/watch?v=zwuMrd_Hgww&t=318s

2:10 - 5:00

What are:

- Commodity?
- Use value?
- Exchange value?
- Labour Time?

Marxism: Takeaways

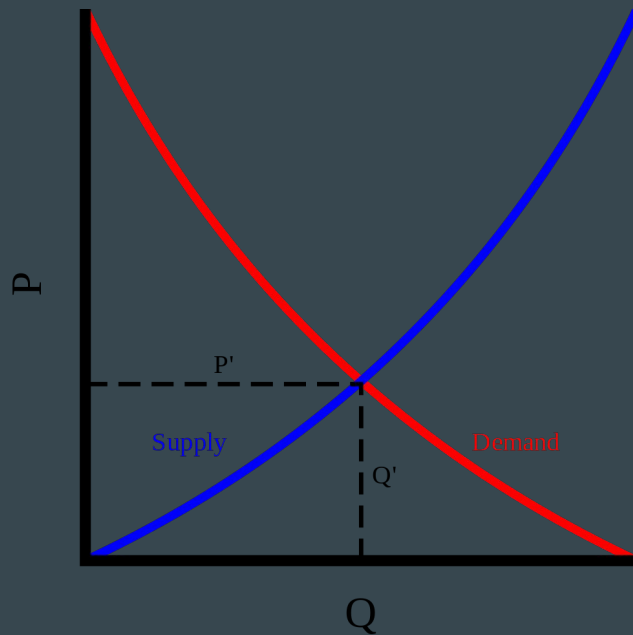
- Capital(ism) is a social thing - **relations** matter (classes, value, inequalities) (Gamble 1999, p. 140)
 - also **dynamic** thing: tension, contradictions, social change inherent
- Historicism, Realism, Determinism are **problematic** (Gamble 1999; Eelke lecture)
- Marxian **analytical** value: “framework for understanding Capitalism today” (Stilwell 2012, p. 99)
- You don’t have to be a Marxist to use Marxian insights & tools

Neoclassical Economics

- Marxism: Production - Neocl. econ.: Exchange
- Actors freely exchange goods and services → optimal allocation of resources
- (Some) assumptions:
 - Rationality/Utility function
 - Perfect Information
 - Free Markets
 - Scarcity
 - *Aggregate* demand and supply

Neoclassical Economics

- A. Marshall: 'objective' supply and 'subjective' demand meet at some point (equilibrium)



Neoclassical Economics

Arnsperger and Varoufakis 2006: Three methodological axioms:

- Individualism
- Instrumentalism
- Equilibration

Neoclassical Economics

Arnsperger and Varoufakis 2006: Three methodological axioms:

- Individualism (micro → macro)
- Instrumentalism (behaviour is preference-driven)
- Equilibration (prediction based on theoretical equilibrium)
- **Problematic:** Axioms are “hidden” (Arnsperger & Varoufakis) and hence not really debated
 - is changing with the rise of heterodox economics

Institutionalism

- North's (1990) core puzzle: why are some economies developed and others not?

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*There is a vast gap between the relatively **clean, precise and simple world of game theory** and the **complex, imprecise, and fumbling way** by which **human beings** have gone about structuring human interaction*

(North 1990, p. 15)

Institutionalism

- North's main point: behavioural assumptions of neoclassical thinking is problematic (p. 19)
 - Mainly: Human **motivations** and **ability to decipher** the environment (p. 20)

Solution: Looking at differences in institutional settings of economies

Institutionalism

- Institutions: “humanly devised **constraints** that shape human interaction” (North 1990, p.3)
 - Formal & Informal
- Institutions decrease **uncertainty** and **costs** (sometimes)
- Institutionalism reformed some neoclass. assumptions about individual behaviour (information asymmetries, role of ideology, idea of rationality, role of institutional change etc.)

Institutionalism: VoC

- Hall & Soskice: Bunch of questions can be approached by comparing institutional set-ups
 - What are the **institutional complementarities** of specific economies?

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 - What are the **institutional complementarities** of specific economies?
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- How do firms solve **coordination problems** in different spheres (industrial relations, training&education, corporate governance, inter-firm relations, employees)?

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- How do firms solve **coordination problems** in different spheres (industrial relations, training&education, corporate governance, inter-firm relations, employees)?
- Two ideal-type solutions: Liberal and Coordinated Market Economies (LME / CME)

Institutionalism: VoC

	Liberal Market Economies (LMEs)	Coordinated Market Economies (CMEs)
Financial System	Capital markets	Banks
Corporate Governance	CEO powerful	Workers and Banks involved
Education & Training	Less skill-focused/less government provision	Long-term skills investment / government provides training
Relations btw. companies	Arm's length	Mutual shareholdings and other networks
Industrial Relations	Antagonistic	Union inclusion & collective labour agreements

Institutionalism: VoC

United States

Germany

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Institutionalism: VoC

- Group work: Applying VoC
 - 3-5 people
 - Pick a country: CME or LME? Use the table
 - 10 minutes
 - Everything you need is in Hall & Soskice 2001 & Google

Takeaways

- Theories build on each other:
 - **Marxism** criticized Classical PE
 - **Neoclass. Econ.** criticized Marxism
 - **Institutionalists** criticized Neoclass. Econ....
- **Marxism** should keep its analytical advantages and get rid of historicism (Gamble 1999)
- **Neoclass. Econ.** formalizes economic thinking, but has rigid assumptions
- **Institutionalists** remedy some rigidities and challenge core assumptions (perfect information, human motivations etc.)
- **VoC** uses institutional differences to compare capitalisms and derive comparative insights

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