

Political Economy Tutorial 5: Globalization, the Great Recession & Inequality



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Agenda

1.) Check-In & Recap

2.) After Bretton Woods: American hegemony 2.0 / Globalization

Break

3.) The Great Financial Crisis: explanations (group work)

4.) Inequality in the 21st century: class discussion

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

- British end was **multidimensional**: eroding from bottom (industrial decline) and top (financial decline)
- The interregnum led to a **contraction** of global trade, lending etc.: rise of protectionism and isolationism
- US power after WWII: stepping in as **global minotaur** (leading sector, domestic unity, international organizations)
- Bretton Woods & “**embedded liberalism**” worked until US could no longer credibly run the show alone
- **After** Bretton Woods: floating exchange rates, no linkage between Dollar and Gold, end of Capital Controls

Intro: Dollar and hegemony



Intro: Dollar and hegemony



Donald J. Trump 

@realDonaldTrump



As your President, one would think that I would be thrilled with our very strong dollar. I am not! The Fed's high interest rate level, in comparison to other countries, is keeping the dollar high, making it more difficult for our great manufacturers like Caterpillar, Boeing,.....

♡ 94.9K 4:38 PM - Aug 8, 2019



Intro: Dollar and hegemony



Donald J. Trump ✓

@realDonaldTrump



As I predicted, Jay Powell and the Federal Reserve have allowed the Dollar to get so strong, especially relative to ALL other currencies, that our manufacturers are being negatively affected. Fed Rate too high. They are their own worst enemies, they don't have a clue. Pathetic!

4:34 PM · Oct 1, 2019 · [Twitter for iPhone](#)

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Intro: Dollar and hegemony



Paul Krugman

@paulkrugman



Maybe I missed it, but how many econo-tweeters have noticed that Trump both bemoans the strong dollar and celebrates the capital inflows that keep it strong?



Donald J. Trump @realDonaldTrump · Aug 6

Massive amounts of money from China and other parts of the world is pouring into the United States for reasons of safety, investment, and interest rates! We are in a very strong position. Companies are also coming to the U.S. in big numbers. A beautiful thing to watch!



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American hegemony 2.0/Globalization: Dollar

- What remains after the post-war boom?
- **Bretton Woods**: Dollar central through fixed exchange rate system
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- Dollar is a **source of power**
 - e.g.: FED can bail out European banks, but not the other way around!

American hegemony 2.0/Globalization: Global Capital Flows

- What does that concretely mean for American hegemony?
 - **Bretton Woods**: Global creditor and exporter of goods
 - **Globalization**: global “surplus recycler”

<https://www.youtube.com/watch?v=cpiE8zh3l9Q>

American hegemony 2.0/Globalization: Global Capital Flows

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 - US played the role of **global minotaur**, finally
- Also: US power opened up markets where it was competitive (reversal of **GATT** idea into **WTO**):
 - **Services & Intellectual property rights (IPRs)** mainly

American hegemony 2.0/Globalization: Manufacturing

- Japanese and German manufacturing (and later China) represents viable challenge in 70s and 80s
- However:
 - Profits shift to Service & IPR sectors
 - Japan: improvement, not new leading sector
 - Hegemony is more than innovation!

American hegemony 2.0/Globalization: Manufacturing

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American hegemony 2.0/Globalization: Manufacturing

- New leading sector: information processing industries
- US state central to R&D and promotion efforts!

American hegemony 2.0/Globalization: Manufacturing

- With WTO: also **deregulation** of service sectors
- **In a nutshell:** Manufacturing decline did not matter so much to US economy because its profitability & innovation was located in other sectors
 - **However:** it mattered for the manufacturing working class! (inequality - 2nd part of class)

American hegemony 2.0/Globalization: The GFC

Group work: Explain some of the moving parts of the GFC

- 1.) “Chinese overproduction, US overconsumption” - explain global imbalances pre-2008 (Schwartz p. 326)
- 2.) What was the “system of global financial arbitrage?” (pp. 327)
- 3.) How did the housing/mortgage boom trigger the GFC? (pp. 337)

Inequality in the 21st century



Inequality in the 21st century

- We discussed mainly *inequality between states*
- However: one of main features of Globalization 2.0 is inequality *within* societies
- Piketty: “There is no fundamental reason why we should believe that growth is automatically balanced” (2014, 16)

Inequality in the 21st century



FIGURE 1.1. Income inequality in the United States, 1910–2010

The top decile share in US national income dropped from 45–50 percent in the 1910s–1920s to less than 35 percent in the 1950s (this is the fall documented by Kuznets); it then rose from less than 35 percent in the 1970s to 45–50 percent in the 2000s–2010s. Sources and series: see piketty.pse.ens.fr/capital21c.

Takeaways

- Three main aspects of American hegemony: Dollar, Manufacturing/ICT and Global Capital Flows
- Globalization 2.0 and all its deregulatory and liberal elements are closely tied to US state power
- US role as global minotaur secured relatively prosperous 90s and 2000s
- GFC is the (tentative) end of Globalization 2.0
 - global imbalances, financialization and housing bubble as sources
- After 2008: stronger emphasis on role of global inequality
 - “Golden Age” of Capitalism: 1945 - 1975
 - Are we back in the 19th century? Inequality, conflicts, crises

Sources (all pictures CC license)

Image Wave Emoji: https://upload.wikimedia.org/wikipedia/commons/thumb/4/48/Emojiione_1F44B.svg/2000px-Emojiione_1F44B.svg.png

Image Nixon: Screenshot from <https://www.youtube.com/watch?v=iRzr1QU6K1o&t=16s>

Image Shrug Shoulders: <https://upload.wikimedia.org/wikipedia/commons/f/f5/RobGrindes-shrug-143px.png>

Image Piketty: https://upload.wikimedia.org/wikipedia/commons/7/7a/Piketty_2.jpg

Image top incomes: Piketty 2014, p. 24

Additional literature:

Piketty, T. (2014): Capital in the 21st century. Cambridge, MA: Harvard Uni. Press.