

Political Economy Tutorial 3: Mafias, Markets and Cycles



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Agenda

1.) Check-In & Recap

2.) The Rise of the Modern State (Ch. 1)

Break

3.) Close reading: (Uneven) development, state strategies, cycles (Ch. 3-4)

4.) Short presentations based on close reading / further Qs (Ch. 5)

5.) Wrap-up and questions

Check-In



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Quick poll

- Are you going to take up the PolSci minor this year?
 - Yes
 - No
 - Undecided

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

- 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

Recap: VoC

United States

Germany

	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

A primer on theories

- Remember Stilwell (2012): Theories **direct** questions, ideas, empirics
 - Making sense of complexity
- Schwartz: A rather descriptive account of (I)PE history & present
 - Sometimes eclectic, sometimes with an opinion
 - But: **make up your own mind!**

The Rise of the Modern State (Ch. 1)

Why does Schwartz start with the rise of the modern state?

The Rise of the Modern State (Ch. 1)

- Basic Idea: European monarchs strive for Empire
 - Problem: Funds needed
 - Problem II: local economies
 - agriculture ≠ surplus and transportation was bad
 - Solution: Go global!
 - Method: Mercantilism
 - Goal: create a homogenous, taxable internal economy through cash inflows

The Rise of the Modern State (Ch. 1)

- However: all kinds of conflicts and dependencies between:
 - Peasants and Nobles
 - Nobles and Kings
 - Kings and Merchants
 - Nobles and Merchants

The Rise of the Modern State (Ch. 1)

- However: all kinds of conflicts and dependencies between:
 - Peasants and Nobles → Surplus appropriation
 - Nobles and Kings → Internal microeconomies vs. external threats
 - Kings and Merchants → Monetarization and Market enlargement
 - Nobles and Merchants → Property rights and revenue control

The Rise of the Modern State (Ch. 1)

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- Peasants and Nobles
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Those intersections produce important dynamics!

The Rise of the Modern State (Ch. 1)

Three Dynamics and God:

- Nobles and Kings: State constitution (**lawyers, guns**)
- Kings and Merchants: Public debt and trading companies (**guns, money**)
- Nobles and Merchants: Private property rights and low taxes (**money, lawyers**)
- Glue to hold everything together: religious and nationalist myths (**god**)

The Rise of the Modern State (Ch. 1)

- **Mercantilism** as the consequence of competition between kings
 - Internal and external project: mobilizing money from overseas to monetize (and unite) states
- **Internal** intersections and **external** competition produced modern European states
 - European peculiarities:
 - Kings never subordinated merchants
 - Nobles joined in fighting external threats

The Rise of the Modern State (Ch. 1)

- Think along with Schwartz: Why did the Vikings fail in state-building?



Close reading (Ch. 3-4)

- In groups of 3
- Answer your question (handout)
 - subquestions help you structuring those
- Prepare a short presentation on your topic (max. 3 min)

Close reading (Ch. 3-4)

What are **NCE** and **WST**? Use the terms 'system-level' and 'unit-level' to explain the different ways NCE and WST explain inequality. Shortly explain what Schwartz means by “agnostic” or intermediate approach.

Close reading (Ch. 3-4)

What are **NCE** and **WST**? Use the terms 'system-level' and 'unit-level' to explain the different ways NCE and WST explain inequality. Shortly explain what Schwartz means by “agnostic” or intermediate approach.

- **NCE**: optimal allocation of goods through competition
- Inequality through institutional differences (North)
- **WST**: Global Capitalism creates 'natural' inequalities: core vs. periphery.
- Periphery: produces only intermediate and low-value-added goods
- Those global market pressures define internal class composition and position of countries

Close reading (Ch. 3-4)

Why does, in the **Von Thünen** model, capital-intensive production happen in the **core** and why is production becoming less capital-intensive towards the **periphery**?

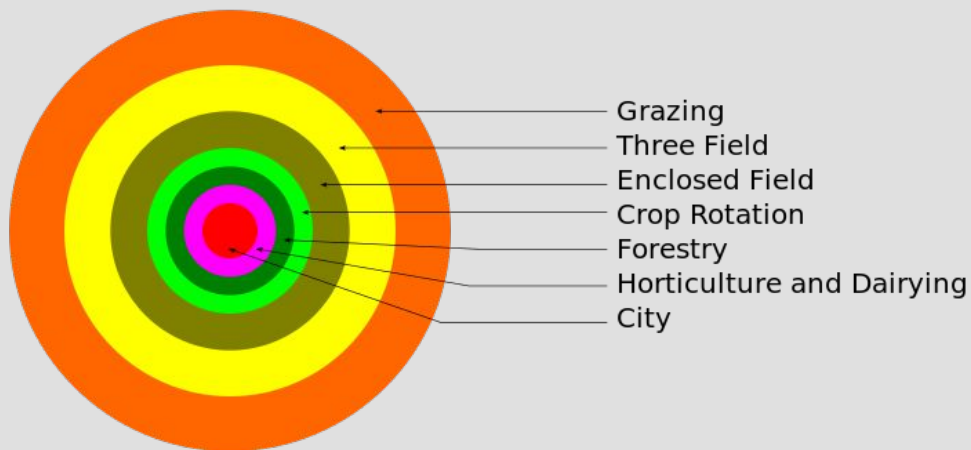
Close reading (Ch. 3-4)

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- **Rents** are higher closer to the core - production needs to be more efficient (higher productivity)
- The further out production takes place, the lower the revenues - i.e. the higher the **labour costs** in relation to revenues
- I.e.: **Labour intensity** higher in the periphery, **capital intensity** higher in the core (always *relative* to production!!)

Close reading (Ch. 3-4)

The Von Thunen Model



Close reading (Ch. 3-4)

How do **Ricardian** and **Kaldorian** strategies aim to achieve economic growth? What are the advantages and disadvantages of these strategies?

Close reading (Ch. 3-4)

How do **Ricardian** and **Kaldorian** strategies aim to achieve economic growth? What are the advantages and disadvantages of these strategies?

- **Ricardian**: comparative advantage focus; export-oriented. Acceptance of peripheral status.
 - Role of the state: mobilizing capital for **infrastructure**, capital for **producers** and **labour supply**
- **Kaldorian**: industrial strategy focus; development-oriented. Trying to move close to the core (i.e. to higher value-added production). Over time: Verdoorn-effect expected.
 - Role of the state: protection of infant industries and **active industrial policy**

Close reading (Ch. 3-4)

Both, Ricardian and Kaldorian strategies, face Gerschenkronian collective action problems. But also more specific risks:

- **Risks** Ricardian strategies: no link between export revenues and industrial growth; reliance on (volatile) raw material prices&demand; no interest in investment by exporting groups
- **Risks** Kaldorian strategies: industries initially non-competitive: Verdoorn effect might not happen; *extended* Gerschenkronian collective action problems

Close reading (Ch. 3-4)

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- **Leading sector**: cluster of innovations that creates new, high-demand products
 - Those products are made w. **cheaper** energy sources and cheaper in transport
- **'Creative destruction'**: rise and fall of leading sectors
- Rise of leading sector = begin of **Kondratieff** upswing
 - New sectors force new investment - pulling others with them (e.g. internet and fibre cables)

Further questions (Ch. 5)

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- Explain First-Mover advantage
 - Instance of Verdoorn effects: Learning by doing
- What is, according to Gerschenkorn, typically the case in late-developing economies?
 - G. identifies a series of different latecomer-symptoms such as:
 - Intensified state investment/involvement
 - Greater repression of labour unrest
 - More ownership concentration
 - Higher growth rates (“catch-up”)
 - Agriculture remains underdeveloped

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 - “Bank-led”: one or two generations (Germany)
 - banks mobilize capital e.g. through loans or corporate control
 - “State-led”: three or four generations (Russia)
 - State mobilizes capital, also through foreign ownership

Related literature



Chang, H.J. 2002: *Kicking Away the Ladder. Development Strategy in Historical Perspective*. London: Anthem Press.

<https://www.bol.com/nl/f/kicking-away-the-ladder/9200000014945080/>

Exam & Essay

- Mock questions **exam**: see Eelke's lecture
- **Essay**: see Canvas for assignment.
 - Possibility of small peer review round on 03.10. (keep an eye on your mailbox next week)
 - Questions also on the 03.10.
 - But do start on time!

Takeaways

- (European) states evolved out of a mixture of internal and external struggles for power
 - **Mercantilism** evolved as the prime strategy for state-building
- **NCE** and **WST** are **unit-level** and **system-level** explanations. Most empirical accounts are rather intermediate - State agency in capitalist world-structure.
- **Ricardian** and **Kaldorian** strategies are ideal-typical, but powerful explanations for economic growth and catch-up
- Economic and hegemonic **cycles** are induced and brought to an end by **leading sectors**
- Hegemonic power stems also from **first-mover advantage** and industrial spread later on

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