

Lecture 1

What is globalization?

- The term means different things to different people and this term has been used to explain different economics and social problems

- Important questions
 - What does economic of globalization involve?
 - Is globalization a new movement or an old one? Old or new phenomenon?
 - Is globalization driven by expanding markets or by other factors? What are these factors?
 - If it is driven by expansion of markets, how do the markets create this large movement?
 - Does globalization make the world, the international community, or more homogenous or disintegrated society?
 - Does globalization determine local events?
 - Is there any correlation between the local development and international movements
 - Is globalization harmful? Does Globalization have negative effects?
 - What is the impact of the globalization on the local economies? How does globalization affect both the wealth and income distribution? Affect the capital mobility?

- World facing certain challenges
 - Large scale economic and social crisis
 - Political literature filled with debates over several issues
 - The nature and dimension of these crises
 - The impact or consequences of globalization on these crises

- Causes of these crises
- Responsibilities; who is responsible for all these crises?

What are we waiting for today:

- Collapse of compensating wage structure
 - The growth of cheap labor economy
- Increasing gap in income and wealth between north and south, they have and they have not
- accumulation of wealth in the industrialized nations
 - Those that are wealthy, their profits are not injected back into local economy but in offshore accounts
- Massive distortion of production; excess supply of luxury goods versus a decline in production of necessities.
- Substantial reduction in demand side of economy, the consumers' demand is increasing; wage levels declining. Demand for necessities is going down, supplies of luxury goods go up
- Collapse of local economy; small and mid-sized businesses. Big corporations control markets
 - i.e. Wal-Mart push 1000's of small businesses out of the market

What is IPE: - International Political Economy

- International Political Economy is a field of inquiry, or a subject matter whose central focus is the interrelationship between public and private power in the allocation of scarce resources.
- IPE seeks to address several interrelated issues in one fundamental question
 - Who gets what; when and why?

- The definition of IPE implicitly points to the importance of power in determining the outcomes.

We use the “Power” in terms of relationships. i.e. the capacity of one actor or economic agent to change the behavior of another. So, the power is exercised in the capacity of actors to set agendas, and to structure the rules in various areas of international economic relations, in such a way that some will be free while the other will lose.

APPROACHES TO THE STUDY OF GLOBAL POLITICAL ECONOMY!

- **Liberalism**
 - Most unified approach among the three approaches to IPE.
 - Often equated with mainstream economic ----- - Based on principles, theories, and arguments introduced by classical economist, mainly Adam Smith.

Main Argument of this Approach.

- Division of labor within society generates natural harmony of interests, when the invisible hand of market competition turns self-seeking individual behavior into socially beneficial outcomes.
 - Individuals act in self-interests
 - Focus on individual enterprise, and the virtues of market competition

- This argument restricts to ensure that the market can operate efficiently. Or to produce these products which can not be produce by print -----
- The specialization and competition can maximize social welfare? How? By improving the exchange between individuals, groups and nations.
- Exchange or trade – is based on the idea that production is based on comparative advantage.
- Accordingly, this idea, heads to a win-win situation.
- i.e. comparative advantage creates a structure of international interactions that leads to natural outcomes. In which the result of these interaction will be cooperative.
- i.e. the international system of free trade would maximize interaction welfare and a peaceful relations among state.
- Role of government is to provide products that cannot be provided by private sector. Public goods
 - Public good
 - Consumption of one individual has no effect on another individuals conception or enjoyment
 - When you supply product, it would be difficult to exclude some from it's availability
 - It would be difficult to charge a price for a public good
 - Creates problem of free riders; those individuals that believe if they don't take advantage of the public good, then others will.
 - There is a pricing mechanism for private goods but not for public goods.
- Through specialization and competition, the social welfare for local or international societies will be maximized.

- Increase in trade based on comparative advantages will be beneficial for all parties.
 - Creates structure of international interaction that leads to a natural income; no one will win or gain more than the other
 - Peaceful relationships
 - Leads to improving social welfare of society
- **Nationalism**
 - Sometimes known as statism or economic nationalism
 - Focuses on the measures that enhance the welfare on a nation, as a group of people rather than focusing on interaction and economic development.
 - In contrary to liberalism, this approach advocates state intervention to correct failures of domestic and international markets; to allocate resources in a way that will lead to high economic growth; how they view the balance of trade
 - International trade policy always needs to be in zero sum terms
 - The gains by one economy must come at the expense of another
 - In the world economy, domination by large corporations enjoying high profits, this can be maintained in the long run.
 - The government can help the national firms to capture these profits by providing them with protection, providing them with subsidies on their imports or exports.
 - Protection policy removed when the industry can compete internationally

- **Marxism**
 - 3 fundamental points
 - Distribution of wealth and income
 - Effect of domestic and international structures and institutions
 - Social classes as a significant unit of analysis
 - Several policy questions
 - Should capitalism be regarded as a progressive force in history?
 - This approach focuses on negative aspects of developed countries
 - Capitalism failed to develop non-Western economies and also made them worse off by extracting economic surplus through unfair trade
 - Capitalism caused the least developed economies to regress and made economic growth unobtainable