Politics and Economics

Two Separate but Inter-Connected Systems
As you can see politics is about power while economics is about how we collectively make our living and survive.

Remember, however, power can come through persuasion as much as coercion.
Some say that politics boils down to how decisions are made about 4 basic issues: settling economic policy, foreign relations, racial issues, and issues of morality (abortion, gay rights, etc.)

We will now look at a variety of political systems and then come back to economics.
First, systems can be measured as to how much authority there is. A nation can be anywhere along this continuum including t in between the dots, which are somewhat arbitrary. While the U.S. is clearly a liberal democracy, some might say that we have moved slightly to the right under the Bush regime.

Notice that liberal democracies, such as the U.S. or European countries, border towards anarchy, a lack of control. This is in light of Locke’s ideal of minimal government - one that just keeps the order. Authoritarian governments can be led by one person or a small group. Examples could be Vietnam, Saudi Arabia, Russia, and China.

Totalitarian governments exert more extreme control that mere authoritarian ones. Historically, China under Mao, the USSR under Stalin, and Germany under Hitler are the classic examples. Some would argue that North Korea today under Kim Il Jong is totalitarian.
Another way of measuring or categorizing political systems is by the degree to which power is centralized or dispersed.

In a confederacy, all members maintain their ultimate sovereignty (independence). A good example is the U.N. - the U.S. gave up no rights by joining and could leave if it chose. Same for the European Economic Union (EUU). Historically, don’t forget the Iroquois Confederacy, the Articles of Confederation, and the Confederacy (the South during the Civil War).

Most nations have unitary systems where the ultimate source of power is centrally located. In England, for example, all power emanates from the government in London. In unitary systems there may be counties or provinces, they can only do what the central government allows them and have no separate rights of their own.

Federalism is a hybrid system whereby there is a unitary sovereign power but also local entities with some sovereign rights. America’s federal system provided our 50 states with “rights” that the central (federal) government cannot violate. (Supposedly.) More on federalism and state’s rights next week.
Political Systems
Who has power?

Monarchy
Oligarchy
Democracy

rule by one
rule by a small group
rule by the many

Monarchy
autocracy
dictatorship

Oligarchy
aristocracy
plutocracy
theocracy

Democracy

We can also categorize political systems by looking at how many people hold power.

Aristocracy = rule by a privileged birth class (medieval Europe)
Plutocracy = rule by the rich (the U.S.?)
Theocracy = rule by religious figures (Iran?)
Authoritarian dictatorships: Cuba, Zimbabwe, Iraq under Hussein

Of course most people would not call the U.S., a putocracy, but a case might be made as money plays a huge role in politics. By most definitions we are a democracy. Still debate remains over just HOW democratic are we, that is how much do “the people” really rule. Where exactly do we fall on this continuum compared to other so called democracies?

If the rich have disproportionate power and if the people do not participate, it might be said we are less democratic than we would be otherwise.
How Do We Know if a Country is a Democracy?

A country is a democracy if it:
1. _______________
2. _______________
3. _______________
Etc.

What makes us a democracy? Usually a country is considered democratic if it holds elections. But even Hitler, Stalin and Sadaam Hussein held elections as does China today. These are hardly examples of democracy.

Also, as someone once said that democracy must be something more than 2 wolves and a sheep voting on what to have for dinner. What criteria, beyond elections, are necessary for a country to qualify as a democracy?
Democracy
(two methods of identifying)

<table>
<thead>
<tr>
<th>Procedural</th>
<th>Substantive</th>
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<tbody>
<tr>
<td>Examine procedures:</td>
<td>Examine outcomes.</td>
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<tr>
<td>• Free and fair elections</td>
<td>• Just see who benefits.</td>
</tr>
<tr>
<td>• Majority rule</td>
<td>• “Economic Democracy”</td>
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<tr>
<td>• Civil liberties (free speech, press, etc.)</td>
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<tr>
<td>– “minority rights”</td>
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For elections to be free and fair, among other things people must have real choice, people must be allowed to organize and run for office without fear the the government cracking down on them, everyone must be allowed to vote, ballots must be secret. Lets see if Pakistan’s upcoming election is free and fair. One candidate has already been assassinated.

“Minority rights” is the concept even if a group that has more than 50% of the vote, they can’t just do anything it wants (such as choosing to eat the minority). For example, in the U.S., the people cannot vote to take away your basic constitutional rights.

Political scientists debate whether it is better to examine procedures or outcomes to determine how democratic a country is. Procedures are more objective, so science oriented political scientists tend to like measuring them. Critics say that this sometimes misses the big picture. A country may have all the procedures on paper that make a country look like democratic, but underneath, behind closed doors, things happen that allow a small clique to dominate. Thus, some people prefer to measure outcomes. In other words if the rich always win, the system is probably not very democratic. However, if the government responds to the wishes of the people and provides them with what they want whether it is education, jobs, and/or healthcare, then it must be democratic (substantive democracy). However, this method or measurement tends to be a bit more subjective.
To go back to a previous continuum, a republic is somewhere between a democracy and an oligarchy. Some political scientists, such as the authors of your textbook, suggest the United States is most rightly described as a democratic republic. While we certainly have some democratic features, the framers of our Constitution, as we will see, were distrustful of pure democracy and included a number of republican features to limit what were considered the “excesses” of democracy.
## Democracy

<table>
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<th>Direct</th>
<th>Indirect</th>
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<tr>
<td>• No check on the power of the majority.</td>
<td>• Aka. representative democracy or a republic.</td>
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<tr>
<td>• The people make the laws by majority vote.</td>
<td>• The people elect people to represent them in making the laws.</td>
</tr>
<tr>
<td>– State initiatives and referendums.</td>
<td>• Implies rule of a talented minority on behalf of the majority and limits on governmental power.</td>
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Which do you think is preferable?

A republic is a less direct form of democracy whereby the people rule though elected representatives. In a direct democracy (such as Ancient Athens had), the people vote on the laws themselves. In a republic “the people” elect those who make the laws for them.

Americans experience direct democracy only when we vote on state propositions. (which are state laws voted on by the people of a given state). There is no equivalent on the national level.
The idea of a republic is that while the people’s voice is important, it should not be the only determinant. Our founders feared that the majority could become tyrannical, oppressive, and unwise. Thus, they hoped to have the majority’s voice filtered through elected representatives and limited by constitutional restrictions. These provisions included the limits on governmental power found in the Bill of Rights and our system of checks and balances - both on which we shall soon study.

The idea of republicanism emphasizes the importance of leadership from the wisest and most talented. While some Americans vote for the guy they think they could sit down and drink a beer with, the idea of republicanism is that you would vote for the smartest guy in the class. (This is an oblique reference to the Gore/Bush debates of 2000).

While our two major political parties have borrowed the terms Democratic and Republican, Republicans support democracy and Democrats embrace republican principles, so don’t let party labels confuse you.

Enough on political systems; now we will turn to economics.
Economics

The field of economics is the study of:

• What is produced.
• How it is produced.
• How what is produced is distributed.

Any basic Economics text book is going to tell you this on the first or second page. Just as all people living together have a political system (a way of making decisions), all groups have an economic system. Primitive peoples produced simple tools, gathered food, and hunted animals. Maybe some people specialized and offered religious services or even entertainment. Just as is true today, what was produced was determined by their environment as well as their level of technology. Distribution was usually somewhat communal to assure the tribe’s survival, that is most of what was produced was shared. Of course, the development of agriculture and later the industrial revolution involved huge changes in how economies operated. Much more was produced using factories and machine power giving rise to much greater divisions of wealth and complex systems of distribution were created using markets and money rather than simple barter.

How societies answer these three basic questions has given rise to the world’s various economic systems. While technology (and sometimes environmental or moral concerns) usually determines what is produced by a society, the question of who gets what and who does what is more open ended, and as we will see, more controversial. Depending on the political system, answers to these questions may be determined democratically or non-democratically.
The major economic systems of the world can be placed on a continuum. Again, while the labels help one describe a particular economic system, countries can fall anywhere on the continuum, and different aspects of their economy may be more to the left or the right. Thus while both France and the U.S. are best described as regulated capitalist systems, the U.S. is closer to pure capitalism and France has some socialist aspects not found in the U.S. (such as socialized medicine and some major manufacturing industries run by the government.) Of course the U.S. itself is not pure capitalism as the government involves itself in the economy in many ways such as establishing a minimum wage, regulating working conditions, regulating advertising, taxing certain activities, breaking up monopolies, etc.
In a truly capitalist system, the government stays out of the economy. Businesses are owned privately, produce what they want, how they want, and set their own wages and prices. Rather than being controlled by the government, they are controlled only by the market and the laws of supply and demand. (ie. - if the price is too high, a competitor well undersell them and thus bring down the price. If there is a shortage of something, the price will go up which will encourage more production and thus eventually lower prices.

Note that individualism is not the same as individuality. (See page 135 of your text for some discussion of this.) Individualism is the social philosophy of self-reliance. The idea in a capitalist system is that rather than expect government handouts (or even help from a neighbor), you should pull yourself up by your own boot straps. It is the idea that what you make ought to be yours and you should not compelled to share. In the capitalist system, it is the fear of failure and poverty that motivates the system and provides the incentive to work hard. As Tocqueville described American individualism back in the 1830’s: “They (believe) they own nothing to any man, they expect nothing from any man; they acquire the habit of always considering themselves as standing alone.”

It is worth noting that capitalism is not always associated with democracy Nazi Germany as well as Iran, China, and Vietnam today are largely free market economies but are hardly democratic.
Socialism

• Government ownership of some major industries, but most businesses are private.
• Extensive social programs.
• Highly progressive taxation.
• Often associated with democratic political systems.

By the same token, democracy does not necessitate capitalism. Many democracies have voted to create socialist economic policies. Most European countries, especially prior to the 1980’s were fairly socialistic and some such as Sweden and Denmark remain so today while also being highly democratic. These counties have socialized medicine, major industries run by the government and generous welfare programs paid through progressive taxes.
Communism

- Government plans and runs the entire economy
- Government decided what is made, how much of each item will be made, and what prices will be.
- Everyone works for the government.
- Historically has not been associated with democratic government.

North Korea is probably the only truly communist economy left, but during the Cold War, China, the USSR and North Vietnam all had communist economies. None were democratic and most bordered on being totalitarian. It seems people would only adopt communism if forced to do so. Ultimately the system proved to be highly inefficient and collapsed from its own weight.
Politics and economics are separate but interrelated.

Not only do governments set economic policy, but the philosophical bases are interconnected.

Now that we have examined the difference between economics and politics, it is time to see how they interrelate, specifically in terms of the American experience.
America’s Political Foundation

The Declaration of Independence
1776

Perhaps the best place to get a sense of what our country stands for is looking at the Declaration of Independence.
The Declaration of Independence

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. --That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, --That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.

Thomas Jefferson

Pretty inspirational stuff - and while that may just be the American in me - revolutionaries throughout the world have found similar inspiration and both Gandhi and Ho Chi Minh quoted Jefferson when declaring their own country's independence. Despite the fact that Jefferson was a slave owner, Martin Luther King noted the pureness of the philosophy and used it to steer America towards its ideals.

The idea that our government exists mostly to allow us to pursue our own happiness seems quite liberating. Of course, we will always have the problem that if my happiness ruins your happiness then someone’s freedom is going to have to be limited.
The Declaration, however inspirational, is not particularly original. Most of its ideas can be traced back to John Locke.

John Locke wrote in his Second Treatise on Government in 1690 that man has an "unalienable" right to "life, liberty, and the pursuit of property". Jefferson borrowed heavily from Locke, but substituted the word "happiness" for property. After all perhaps property makes us happy, perhaps not.
Locke’s Meaning of property

“A man has a property in his opinions and the free communication of them. He has a property of peculiar value in his religious opinions, and in the profession and practice of them. He has property very dear to him in the safety and liberty of his person. He has an equal property in the free use of his facilities and free choice of the objects on which to employ them. In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.” (James Madison, from Levy Origins of the Bill of Rights)

Madison here provides some eloquent elaboration on Locke’s notion of property that elevates it beyond crass materialism.
Besides natural rights, here are three more central principles found in the Declaration.

Clearly, Jefferson had equality of opportunity in mind - and was rejecting the notion of aristocratic birthright, while being blind to racial and gender issues.
America’s Economic Foundation

Adam Smith’s *The Wealth of Nations*
1776

Maybe not so surprisingly the, the so-called “bible” of capitalism was first published the same year as the Declaration of Independence. Thus our economic and political manifestos emerged at the same time, and as we will see were inspired by some common values and assumptions.

While, as I have pointed out, capitalism and democracy do not necessary go hand in hand, in the United States the appear to be wedded together and share a number of presumptions about society.
The Wealth of Nations

• People should be free to pursue their economic self-interest. (economic liberty)
• Competition will serve as the “invisible hand”.
• As the market will be self-regulating, the government should take a *laissez-faire* role.
• This will lead to prosperity and social harmony.

Smith’s term the “invisible hand” refers to the laws of supply and demand, which unlike government law treats everyone the same and is completely neutral and incorruptible. If someone charges too much for a product, another vendor will undersell him and still make a profit. If there is a shortage of a particular product demand will drive the price up, thus encouraging new producers to enter the market. This all happens without the “visible” hand of government law or commands, which often play favorites. He thus advocated a “laissez-faire” (hands off) role for government in regards to the economy. This would allow for maximum economic freedom as the government would allow the economy to run on its own. While some people would remain poor, everyone would have a chance to “make it” and the fear of poverty would be the incentive to work hard.
Capitalism and Democracy
The Political-Economic System

Thomas Jefferson (1776)
- Be selfish and compete for what you want (in the voting booth/political arena).
- Meet others on a level playing field (ie. One man/one vote).
- Government should protect private property.
- Out will come justice, rights and due process. (substantive democracy)

Adam Smith (1776)
- Be selfish and compete for what you want in the marketplace.
- Meet others on a level playing field (ie. free competition).
- Government should protect private property.
- Out will come wealth, progress, and social harmony.

Both emphasize competition, individualism, and the primacy of individual rights and freedom.

We can here see how our politics and economics interconnect.

As mentioned, our government regulates our economy in numerous ways; however beyond this you can see how the values behind our form of democracy and capitalism are similar. Both emphasize the primacy of the individual and the pursuit of individual interests. This is quite different from many (perhaps most) societies which place greater value on the needs of the community and one’s responsibility to it.

Both Jefferson and Smith argued that government should stay small and suggested that government’s key responsibility should be simply to protect our property - small government and low taxes! While the Republican Party may seem the most loyal to these ideals, both parties support the the basic principle more than those countries with more socialistic or communitarian outlooks that emphasize the common good over individual rights.

Interestingly both Jefferson and Smith praise the individualist ethic and suggest, to use to use a common metaphor, that we start with lemons (greed/self-interest) and end up with lemonade (such things as justice, rights, and prosperity).
Does It Really Work?

“We are a free nation, where men and women have the opportunity to achieve their dreams. No matter your background or circumstance of birth, in America you can get a good education, start a business, raise a family, worship freely and help elect the leaders of your community and country.”

President George Bush
2/22/06 Tsinghua Univ.

Does the pursuit of self interest really lead to a better world for all? George Bush and probably most American’s, think so.
“Liberalism and Western-style democracy have not been able to help realize the ideals of humanity. Today these two concepts have failed. Those with insight can already hear the sounds of the shattering and fall of the ideology and thoughts of the liberal democratic systems.”

Iranian President Mahmoud Ahmadinejad in a letter to George Bush 5/06

While the president of Iran has a strongly different perspective.
Certainly America has had great successes, but you might ask if all if these are good things. Individualists, for example might take great pride in our low tax rates while those who would like to see more spent on education, health care, and environmental and social programs may wish the government had more funds.

Finally, you might ask if we are truly a democracy if people do not participate and exercise their political freedom.

Though the U.S. has less than 5% of the world’s population, we hold almost 25% of the world’s prisoners.
Perhaps a bipartisan testament to our strengths. While a majority of Americans report that the country is on the wrong track, voter turn out, especially among young voters, has reached record highs this year. Perhaps political freedom is facing a revival. And indeed, if the country is on the wrong tract, it will be up to the "people" to right it.