**Global Economic Systems and the Urban Poor**

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**Summary:**

Discussion Item One – Economics as Institutionalized Relationships Production, Distribution, Consumption, Who Decides?

Discussion Item Two – Property Rights Public or Private? What balance?

Discussion Item Three – Market Capitalism Decentralized Decision-making, Private ownership of production, Legal enforceability.

Discussion Item Four – Marxist Socialism Resources should be socially owned, centralized planning

Discussion Item Five – Global Integration Mixed economies, Democratic socialism, transitional processes

**Fundamental Questions on Economic Systems:**

l. What is an economic system?

2. What choices must any economic system create answers to? Why must it do so?

3. What arguments would you advance for market capitalism as a desirable economic system?

4. What is planned socialism? What are its main differences from market capitalism?

5. Sketch the main points of Marx's model of history and explain why Marx’s prediction about the collapse of capitalism has not come true.

6. What is meant by the Marxist term. "surplus value"? What is the labor theory of value on which it was based?

**Fundamental Questions 2:**

7. Why do property rights and the level at which choices about using resources matter to an economic society?

8. What seems to be the explanation for the fact that most economies in the late 20 th century are "mixed economies"?

9. What is the problem of "fatal conceit" that has afflicted planned socialist economies in the 20th century? What causes the problem?

I0. Why has planned socialism largely lost out in the contest with market capitalism?

**The Discipline of Economics: Study of Institutionalized Relationships:**

Economics as a discipline is based on the fundamental: Scarcity(need) requires institutionalized arrangements of making, selling goods.

Choices. Which goods for which people? How many of each good produced? Distributed to which groups Who decides?

The Discipline of Economics: Study of Institutionalized Relationships The most efficient survive. In over 6000 civilizations economic configurations have constantly morphed

**Basic Economic Choices 1. Productive Output:**

Productive Output Choices are imposed by scarcity. Regardless of the philosophical or ideological preferences of a society, these are the questions about using resources that must be answered. These choices are:

1. What shall be the composition of Output? Since everything that is desirable cannot be produced in the quantities desired, choices, often difficult ones-must somehow be made about allocating resources to produce one good as opposed to another. Shall these choices be made by individual consumers or shall government planners make the decisions? Whose tastes and preferences shall dominate the choice about output?

Choices 2: Production 2. How shall goods be produced? At any particular time. there is a menu of choices about producing goods. Shall we, for example produce information for making economic decisions with typewriters and telephones or with computer hardware and software? An answer to this question is necessary: shall it come from individual managers and entrepreneurs or from central planners?

Choices 3: Distribution This question of distribution is perhaps the most difficult and potentially divisive one for all nations. Shall markets, responding to productivity signals. ration output on the basis of (market-earned) incomes and tastes or shall planners set prices and factor incomes according to some set of ·social objectives? What is equitable or fair? Since, there is no unique definition of distributive equity, each society must not only find a means or process to distribute income, but must also agree on the results of that process.

**Evaluation of Economic Systems:** Efficiency in resource usage? Property rights: invested in State, individual or mixture ? Ethics, morality, alignment with Biblical principle?

**Property Rights:**

PUBLIC: Enables planned redistribution. Results in an expanding bureaucracy. Creates incentive and innovation. Creates differentiation of rich and poor, oppressed and oppressor, owners and workers

PRIVATE: Property Rights Rights to own, transfer and profit from ownership of resources Its mine! Its ours!

**Planned Socialism:**

(There are many cooperative systems. This is one outlier in the spectrum). Property Rights are held publicly Choices about production and distribution are made centrally

**Blessings and Problems of Socialism:**

Blessings and Problems of Socialism Inequalities can be equalized out e.g. socialism provides housing for all Distribution can be better planned. Disincentives to work: Why work harder for the same pay? The Myopia of altruistic planning. The technical problem of planning. Quotas mean production numbers are jigged. e.g. too many shoes for some areas and not to others

**Marx and Socialism:**

Marx and Socialism Dialectic Materialism Class Conflict Falling Profits and the Reserve Army of the Unemployed The rising number of unemployed caused by increased mechanization, plus increased capital compete with the employed and drop wages. Recurring Business cycles The economy expands but workers don’t have the wages to buy. (e.g. 10,000 washing machines per month, but the public only have capacity to buy 5000. Creates crisis and collapse and recurring depression The Collapse of Capitalism He predicted that the exploitation of labour based on the reserve army would become larger and larger and eventually the boom and bust cycles get so great that capitalism would collapse.

**4 Ameliorating Historic factors:**

Social Welfare networks Increased productivity has meant increased wages (in the West up till the 1980’s) Governments have taken a role to reduce the boom and bust cycles Many workers have become capitalists. Around 67% in the US own their own homes, 40% own stocks. .

**Late 21st Century Competition:**

Thesis: Communism Centralized State p lanning to meet needs Redistribution so there are no poor.

Antithesis : Capitalism Free market decides on needs through networks of markets – this requires considerable government legislation and control. Capital is concentrated Expansion of capitalist class does not direct resources to social needs, cannot provide housing for the poor or medical care etc. Wages are part of production so kept low Positive incentives to produce. Lack of controls have resulted in expanding printed money 30-50 x the actual wealth of nations Late 21 st Century Competition The practice

**Globalizing Bureaucratic Capitalism:**

Capitalism: The markets drive decision-making Differentiation of rich and poor is encouraged. Private property rights are protected Enforcable contracts Globalized Mixed Economies Free market and free trade encouraged All economies have significant government planning Government planning redistributes profits to a safety net. Expanded processes of property rights and contracts Socialism Government bureaucratic planning No poor through redistribution Globalizing Bureaucratic Capitalism The synthesis.

**Transition from Socialism to Planned Capitalism:**

During the 1990’s centrally planned economies began collapsing across Europe. This lead to attempts to transition to forms of capitalism. The transitions failed to take into account the long history of institutional formation in European economies, and the necessity of trust in contractual legal systems though rapid judicial decision-making. Many of the Eastern European countries reverted in part to older traditions. Mixed economies have developed. Transition from Socialism to Planned Capitalism The 1990’s

**Readings**

Global and Urban Economic Systems Summary of Rostow , W.W. (1991). The Stages of Economic Growth: A Non-Communist Manifesto (3rd ed.). Cambridge: Cambridge University Press. Jeffrey Sachs (2005). The End of Poverty. Penguin Group. U.K. Patterning Global Systems on the Kingdom Themes Grigg , V (2010). Conversations on Kingdom Economics. (Access athttp :// www.urbanleaders.org /home/ publications.html ). (Use Guest, password: matul2010) Read the Section contrasting Capitalism and Socialism with Biblical principles. Is Equality the Goal ? Wilkenson , Richard, and Kate Pickett. (2009). The End of an Era. The Spirit Level. Bloomsbury Press. (needs editing) O’Hanlon, Gerry S.J. (2007) How Much Equality is Needed for Justice? Working Notes • Issue 56 • November 2007. Urban Economic Studies Santos, Milton. (1979). The Financial Mechanism of the Lower Circuit. The Shared Space (trans from Portuguese, C. Gerry, Trans.). London and New York: Methuen · de Soto, Hernando. (1989). The Costs and Importance of the Law. The Other Path (June Abbott, Trans.). New York: Harper & Row. pp 121-131. Jacobs , Jane. (1984). Cities and the Wealth of Nations. The Atlantic Monthly (Mar/Apr 1984). ch 2. Donald MacNeill and Aidan While. (2001). The Urban Economy. Handbook of Urban Studies. Paddison , Ronan, ed. Sage Publications. Bannerjee , Abhijit . (2009). Poor Economics. (see interview ) Supplementary on the critique of Global Capitalism · Schumacher, E.F. (1973). Small is Beautiful – Economics As If People Matter, Colophon Books (Ch. III, pp.180-193) Korten , David (2000) “The Post-Corporate World: Life After Capitalism”, BK Currents ( Berrett -Koehler Publ.) (Ch. 18-20) Korten , David (2001) “When Corporations Rule the World” , 2nd ed., Kumarian Press. (Ch. 6-9). Theological Reflections (1990) The Oxford Declaration on Christian Faith and Economics