DEPARTMENT OF POLITICS AND INTERNATIONAL STUDIES

Politics Masterclass Lecture

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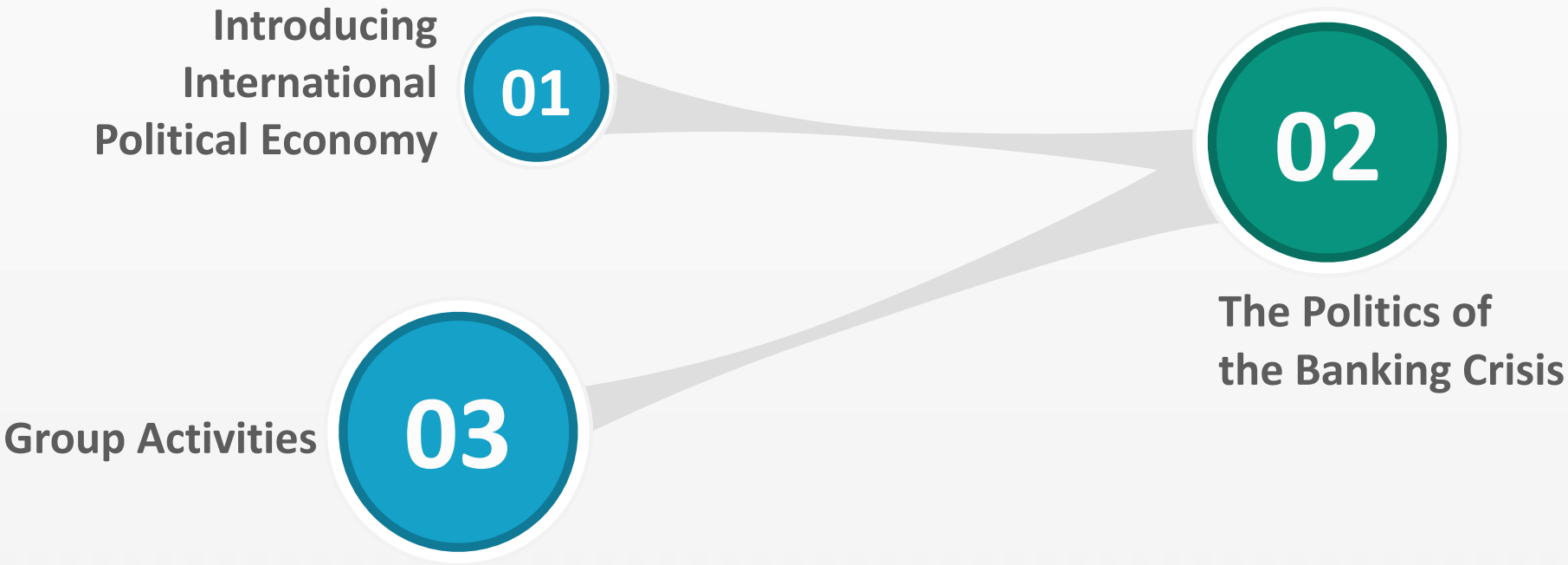
Plan

POLITICS MASTERCLASS LECTURE



1. Introducing International Political Economy

What Does it Look Like?

International Political Economy

The Financial Crisis

Trade Politics

Environment Politics

The Social Crisis

Development and Rising Powers

Future Alternatives

Early Political Economy

- Legacy of the classical tradition: C18-; pre-disciplinary; ‘politics’ and ‘economics’ fused together (along with other topics such as ethics, literature); Examples: Adam Smith, Karl Marx.
- Late C19-, modern economics emerges as a new ‘science’, polices distinction between ‘economics’ and ‘politics’.
- After Second World War: division becomes institutionalised into disciplines and university departments.
- But some continued to maintain a fluid relationship, as in Marxism.

Modern political economy

- From 1970s: crises and tensions reveal the 'politics' in 'economics': rise of private finance, trade disputes, oil shocks, developing countries gaining independence from colonial rule.
- Higher levels of interdependence ('globalisation'): rise of multinational companies, European project of integration, Japan, later China and India.
- Key questions: (1) Why does the international political economy take its current forms? (2) What are the impacts of capitalism on different actors (governments, business, civil society)?

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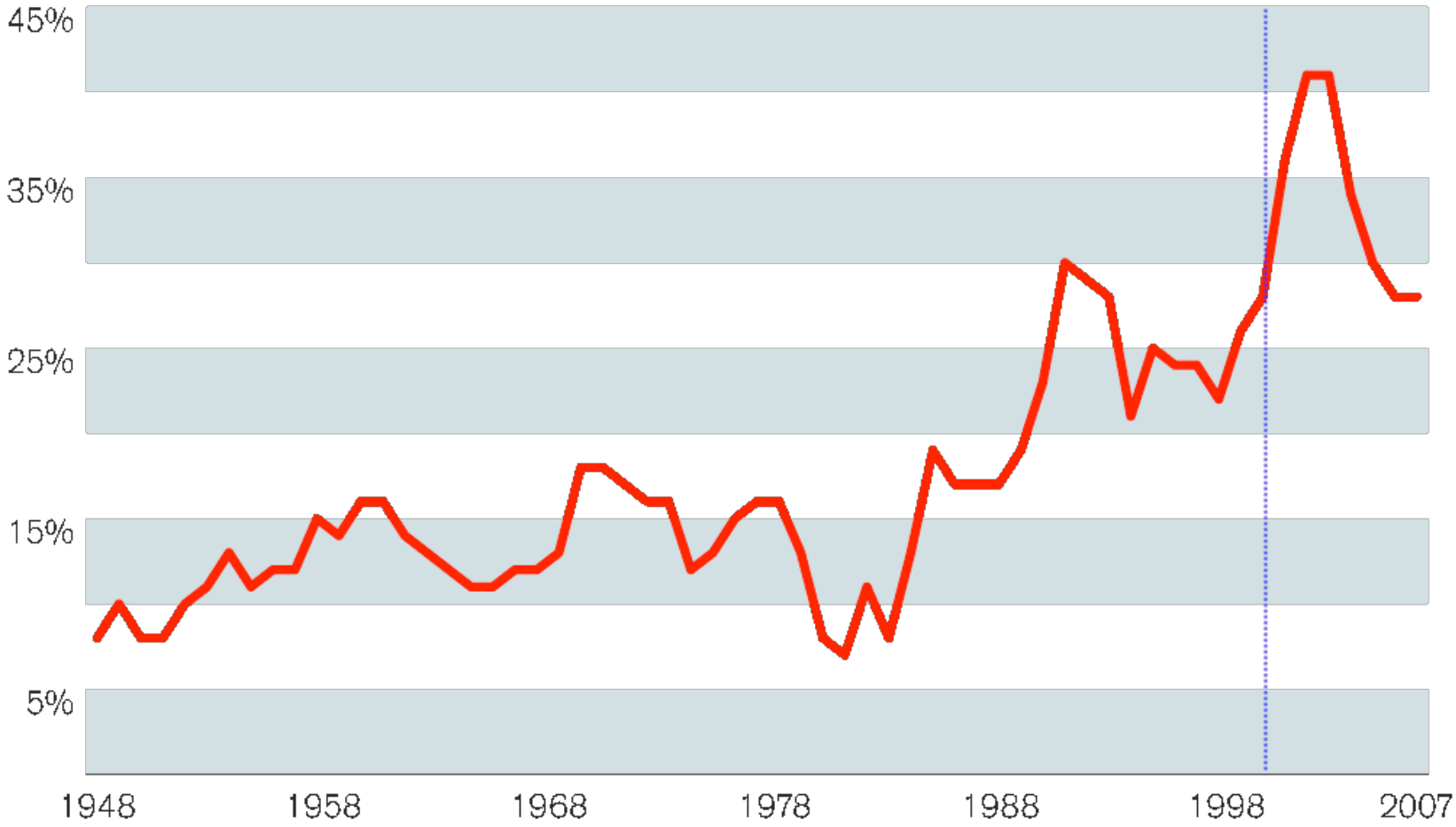
2. The Politics of the Banking Crisis

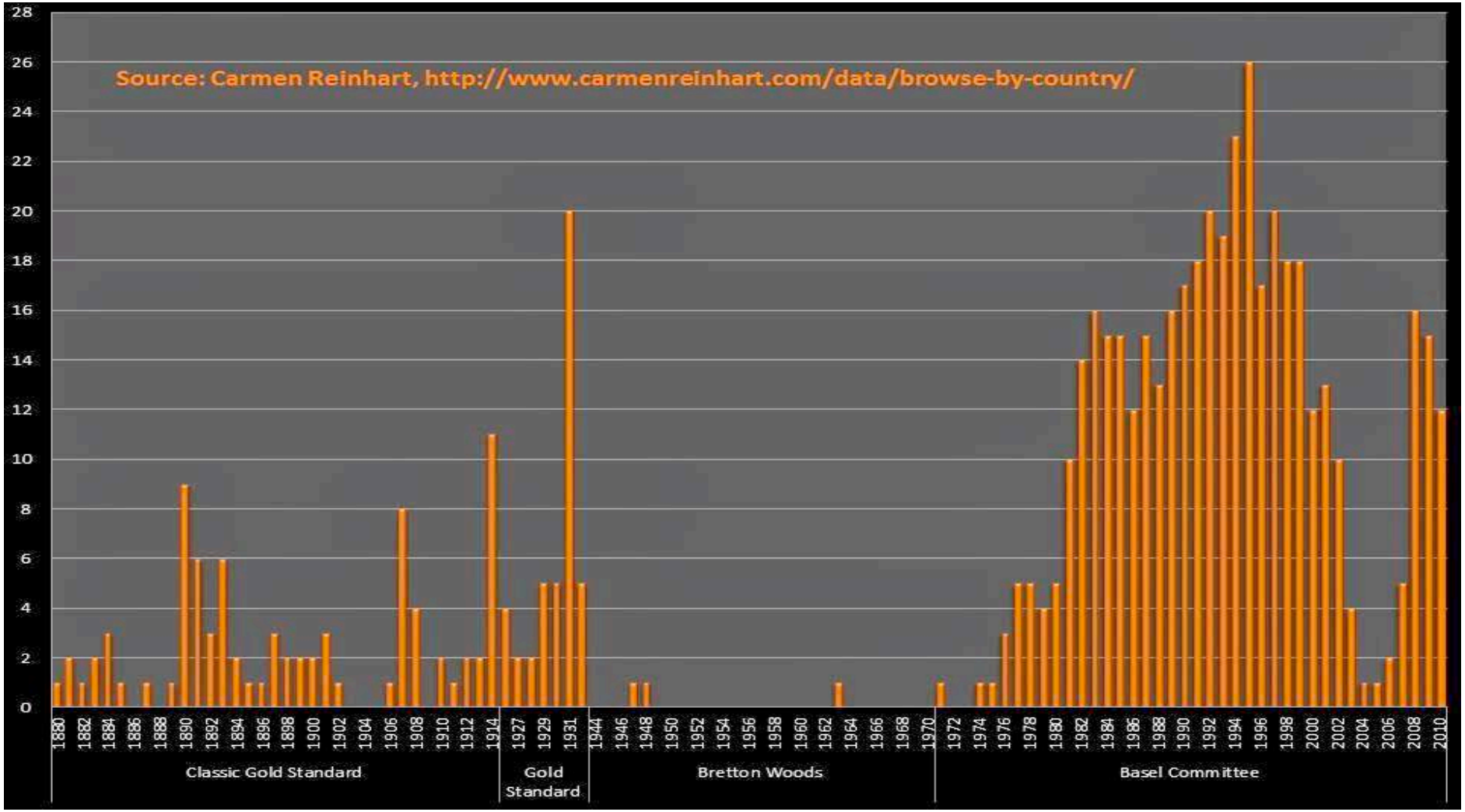
The Politics of Finance

- Financial sector rose in power from 1980s. Governments (US/UK) laid the legal rules to encourage expansion.
- Personal ties between elite policymakers and financiers or ‘revolving doors’ between jobs.
- Institutional dependence between political parties and financiers to support funding, lobbying.
- Structural power of financial markets over government choices.

US financial industry profits as a share of total US business profits, 1948-2007



Share of countries with banking crises, 1800-2007



Why did the crisis happen?

Risky lending practices

- All major banks took on dangerous levels of debt in an effort to become even bigger (30 to 1, even up to 50 to 1).
- US housing market a ‘wild west’ environment: predatory lenders who required little or no evidence of borrower income, zero down payments.
- Higher risk loans required borrowers to pay higher fees and, thus, generated larger profits for the lenders.
- Wider culture of mis-selling was seemingly intrinsic to other markets, including insurance and credit cards.

Securitisation

- A form of financial engineering whereby credit-risky assets are packaged with higher quality assets to enable the sale of the former to a wider market.
- Example: take a bad debt (mortgage) and sandwich it with good debt (government bonds) to make a new product.
- Not necessarily a ‘bad thing’ in principle, but dangerous when it becomes overly complex and cloudy (‘moral hazard’) on where responsibility lies for the debt.
- Main lesson: You as an individual can diversify your risk. The system as a whole, though, cannot reduce the risk.

Credit rating agencies

- Ratings were claimed to represent an independent and accurate judgment on the risks of different assets. Ratings made on financial health of many things: products, banks, governments.
- However, many conflicts of interest have surfaced between CRAs and their clients: softened rating criteria, even revealing models for payment.
- Crisis showed many ratings as worthless guides. For instance, for Lehman Brothers, on morning of its collapse, the CRAs still had investment grade ratings.

Government actors

- Weren't governments keeping an eye?
- Governments (including central banks) wanted cheap money to keep up growth and thus maintained extremely low interest rates (less than 1 per cent).
- But these low rates also tempted large financial institutions to get greedy again.
- Rise of China purchasing power generated massive inflows of money into US government debt, further fuelling the supply of cheaper credit.
- 'Light touch regulation' ruled: finance obtained tax breaks, easy rules, and broader political sympathy.

The consequences

- The crisis produced devastating impacts: the biggest depression since the 1930s; 30 million people lost their job; harder impact on young people (aged 15-24).
- US: lost income maybe US$30 trillion.
- Governments saved the banks (average 20-30% of GDP; UK was 60% of GDP), along with many measures.
- Yet financial sector remains as large, complex and almost as powerful today.
- Debt largely shifted to public sector, sparking popular resistance and anger at perceived societal injustices.

Conclusion

The study of the international political economy
To examine the interlinked relationship between the pursuit of power and wealth in international affairs.

Global financial crisis had many causes
Still unpacking the factors, but risky lending behaviour by banks is probably the most important, before considering governments.

Capitalist system has crises built into its DNA
But crises have become more frequent and severe in last 40 years, with widespread social and political impacts. Can we design a better financial sector? Should we move to a system beyond capitalism?

3. Group Activities

FANDANGO
MOVIECLIPS

Is greed good?

How to Learn

Hint: you never stop experimenting

Curiosity

Persistence

THANKS FOR ENGAGING

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