

**PO230 States and Markets: An Introduction to International Political Economy
Seminar Week 2. The Invisible Hand of Merchant Capitalism**

Tutor: Saadia Gardezi

To what extent did the lecture and readings change your knowledge of classical economics?

Adam Smith, *The Wealth of Nations* (1776) (Excerpts)

<https://oll.libertyfund.org/quotes/adam-smith-inequality-rich-and-poor>

“The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.”

Invisible hand and self-interest

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages....”

The role of the state

“I have never known much good done by those who affected to trade for the public good. . . The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.”

Mercantilism and protectionism

“Each nation has been made to look with an invidious eye upon the prosperity of all nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.... The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolising spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected, may very easily be prevented from disturbing the tranquility of anybody but themselves.”

- What is the Smithian approach to Political Economy?
- Can we call Smith “radical”?
- “Smith's system of natural liberty is not a simple ideological argument in favour of transferring economic authority from the state to the market” (M. Watson). Discuss.

(or What did Smith understand as the appropriate role of the state in the economy?

*Ben’s seminar Q)

- What is the wealth of nations?

To what degree is self-interest or altruism is the best way to improve the material and non-material wants of the members of a society, a nation, or the world?

Saadia's notes for students/Where to find what?/Helpline

- Rational choice theory?

<i>RCT</i>	
Assumptions about human nature	Rational Greedy and self-interested Maximizer Instrumental Fixed hierarchy of preferences
Unit of analysis	Individual
Concepts of organization	Nominal Aggregate of individuals
Philosophical stances	Hobbesian Exchange
Power	Does not question origin or position
Modes of theorizing	Deductive
Methods	Model testing Quantitative, but not empirical
Criteria for validity	Ideal Predictive
Controls	Market Markets control corporations

School of thought based on the assumption that individuals choose a course of action that is most in line with their personal preferences.

In rational choice theory, agents are described by their unchanging sets of preferences over all conceivable global outcomes. Agents are said to be rational if their preferences are complete—that is, if they reflect a relationship of superiority, inferiority, or indifference among all pairs of choices—and are logically ordered—that is, they do not exhibit any cyclic inconsistencies. In addition, for choices in which the probabilities of outcomes are either risky or uncertain, rational agents exhibit consistencies among their choices much as one would expect.

Image from: Zey, M. (1998). Basic characteristics of rational choice models versus organizational theories. In Rational choice theory and organizational theory: A critique (pp. 33-54). SAGE Publications, Inc.

- Marginalist revolution=Isolation of economic decision taken at the margin. See M. Watson in Global Political Economy (ed. Ravenhill), pg. 30 Box 2.1.
- For those of you uncomfortable with economics here is a good online resource to quickly understand on some basic ideas and conceptions
<https://www.khanacademy.org/economics-finance-domain/macroeconomics>

Here is another easy primer on economic ideologies:

<https://home.heinonline.org/blog/2020/07/capitalism-socialism-or-fascism-a-guide-to-economic-systems-and-ideologies/>

- If M. Watson's chapter (The Historical Roots of Theoretical Traditions in Global Political Economy [Ravenhill, John (ed.). Global political economy]) was hard to read I suggest you read the key points first, and then the main text to understand the key points.
- Smith on "sympathy": "People learned appropriate expressions of sociability from this perspective not by being able to rationalize the best possible response to prevailing circumstances but through imaginative acts enabling them to experience vicariously the types of feeling currently affecting fellow members of society. This is a process that Smith called 'sympathy' and it is only through successful sympathetic

enactments that people become aware not only of their autonomous status within society but also of the need to act in socially acceptable ways so as to preserve that status.”

See M. Watson in *Global Political Economy* (ed. Ravenhill), pg. 36.

Next Week

1. How does the East India Company fit within the story of the development of capitalism?
2. Can you think of contemporary examples/parallels with the EIC?