

2nd Edition

Economics

Principles of
Political Economy

Daniel R. Fusfeld



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**Principles of
Political Economy**

Daniel R. Fusfeld
University of Michigan

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Preface

This text is an introduction to economics for those who have had little or no previous training in economics. This analysis of the political economy of modern capitalism focuses on the relationships among economic forces, the changing institutional structure of the economy, the sources and uses of economic power, and the conflicts inherent in and generated by the private-enterprise economy. Theories of exchange and the level of economic activity are explained and used as part of a political-economic-institutional analysis.

This revision is primarily a thorough update and tightening of the argument throughout. More specifically, the following areas have been expanded or added:

- a flexible-price Keynesian model (Chapter 6);
- a mainstream fixed-price Keynesian model (Appendix 7A);
- discussions of Reagan's economic policies and the limits of fiscal policy (Chapter 9);
- discussion of national debt (Appendix 9A);
- examination of the instability of the monetary system and the financial crisis of 1981–82, as well as an expanded discussion of monetary policy (Chapter 12);
- inflation—lessons learned from recent inflation, inflation resulting from military spending, and the core rate of inflation (Chapter 14);
- expanded material on regulation and deregulation and a discussion of industrial policy (Chapter 23);
- a focus on women in the labor market (Chapter 25);
- the welfare safety net (Chapter 28);
- discussions of employment taxes, financing of social security, and tax policies of the Reagan administration (Chapter 30); and
- an examination of worker ownership and worker self-management (Chapter 36).

The Introduction and first three chapters form Part 1, which is an overview of the functions, limitations, and conflicts of the modern economy. Parts 2 and 3 (Chapters 4–14) cover macroeconomics. Parts 4 through 7 constitute the microeconomics presentation. Part 8 on socialism and Part 9 on the international economy are optional sections; either could be taught immediately after the macroeconomics parts. For those instructors who wish to do so, the microeconomics portion (Parts 4 through 7) can be taught before the macroeconomics (Parts 2 and 3). Various appendixes appear throughout the text, either covering topics in greater depth or presenting optional material of interest. The appendixes can be assigned at the discretion of the instructor.

The theoretical and conceptual framework of the book includes the following specific elements:

1. The macroeconomic analysis uses a flexible-price post-Keynesian model rather than the fixed-price Keynesian model. It allows cost and supply-side considerations to be built into both the basic theory and the analysis of inflation.
2. This book uses the concept of money as a connecting link between the present and future in a time-consuming economic process rather than the monetarist concept of an autonomous money supply.

3. The macroeconomic analysis emphasizes the instability of the economy rather than equilibrium. It also shows that changes in aggregate demand and aggregate supply affect the level of prices as well as output and employment.
 4. A partial-equilibrium analysis, rather than neo-Walrasian general-equilibrium theory, is used to explain the market adjustment process. The analysis focuses on the producer rather than on the consumer to emphasize the proposition that prices are determined by costs of production in the long-run adjustment of competitive markets.
 5. Major attention is given to administered prices in the oligopolistic sector of the economy and to institutional factors, such as industry structure, corporate goals, price leadership, the kinked demand curve, and markup pricing.
 6. The dual nature of the U.S. economy is stressed throughout, including the contrasts between competitive and monopoloid sectors in product markets and between primary and secondary sectors in the labor market.
 7. Five full chapters in Part 6 are devoted to the distribution of income and wealth, bringing together market forces, institutional structures, economic power and collective bargaining, Marxist exploitation theory, and unearned incomes.
 8. Alternatives to private-enterprise capitalism are discussed in Part 8 on socialism, in Chapter 39 on economic development in the third world, and in Chapter 23 on big business and public policy.
 9. Economic power, institutional factors, and market forces receive equal emphasis in chapters dealing with the role of government (Chapters 29 and 30), war and defense (Chapter 31), pollution and the environment (Chapter 32), energy (Chapter 33), and the international economy (Chapters 37 and 38).
 10. A continuing theme is the tendency in modern capitalism for economic power and wealth to become more highly concentrated in the hands of a few large corporate units. An alliance of this concentrated economic power with the political and military power of big government creates the political environment for economic activity.
- The basic thrust of the book is that the functioning of the modern economy can best be understood by examining the forces of production, social relations of production, and market forces. This book expands and enriches the mainstream analysis of market forces to include the social relations of production and gives increased attention to the forces of production.

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