

EHJLT

Module #9 – Advocacy in Action

Agenda (Topics Covered):

- Economic evolution through history
- The origins of capitalism
- Changes in capitalism
- The origins of neoliberalism
- Types of capitalism
- The history of economic thought
- The links between economics and politics

Key Terms Introduced

- class
- slavery
- feudalism
- capitalism
- neoliberalism
- surplus
- distribution
- Great Depression
- Golden Age
- Physiocrats
- classical economists
- Karl Marx
- exploitation
- equilibrium
- preferences
- John Maynard Keynes
- supply-constrained
- demand-constrained
- effective demand
- Milton Friedman
- Monetarists
- Post-Keynesians
- Structuralists
- heterodox

The Economy is Always Changing

- The economy is constantly evolving:
 - What we produce
 - How we produce it (technology)
 - Our relationships to other people
- It's very important to study economic history
 - Provides perspective to today's capitalism
 - Proves that the status quo isn't permanent
- Economics is also in constant flux, changing alongside the economy

A Short History of the Economy

Hunter-gatherer societies

- No surplus.
- Very flat social structure.

Slavery

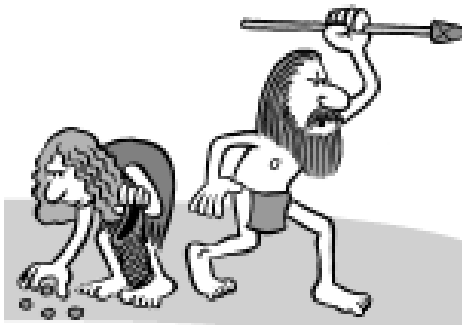
- Permanent agriculture allowed for a surplus to exist.
- This opened a social conflict over who controls it.
- Class divisions appear within society.

Feudalism

- A more sophisticated, subtle class structure.
- Peasants did the work, landlords collected surplus.

Capitalism

- Social structures evolved to match the needs of new technology that produced much larger surplus.



Hunting gathering



Slave ownership



Feudalism



Capitalism

Something else?

The Economic Surplus

Every economy must produce enough to keep its participants alive, and to allow production to continue next year.

- Subsistence for the people.
- Replace inputs to production (e.g.. seeds for next year's crop).

Production above and beyond this is the “economic surplus.”

- It can be consumed, invested, or wasted.
- Control & use of the surplus is a key dimension of economic organization.
- Different economic systems do it differently.

Common Themes & Lessons

- Work is the source of all value added, no matter what the economic system.
- Humans learn by doing: as we work, we learn how to work better (technology).
- Social relationships and the organization of our work change with technology.
- Every society which produces a surplus, must decide who gets it, and what they do with it.
- Nothing in the economy is permanent.
 - Attempts to portray capitalism as “natural” or “ever-lasting” are ideological.

The Birth of Capitalism

The economic system we live under now emerged in the 18th Century in western Europe (especially Britain).

It emerged from more advanced and centralized feudal monarchies.

- Non-agricultural production and trade came to displace feudal agriculture as most influential sector in society.
- New forms of ownership and control arose to reflect new technology of work.
- New social structures emerged to meet the needs of this new system.

What “Caused” Capitalism

Several factors contributed to the emergence of capitalism...
... and its initial concentration in W. Europe.

- Technology (power systems, machinery).
- Unified, reliable markets (transport networks, weights & measures).
- Resources (water power, coal).
- Empire (raw materials & slave labor from colonies; captive market for output).
- Government (strong state to oversee commerce, protect private property, manage colonies).

The Evolution of Capitalism

- Initial conditions in capitalism were very harsh.
- Capitalism rapidly spread and evolved.
 - Very high profits & high rates of reinvestment, kept the system growing and dynamic.
- Conditions improved (in many places, not all), reflecting:
 - Social conflict –Wars
 - Booms and busts –Democratization
- Capitalism has experienced distinct phases.
- In the last century these phases included:
 - Early boom –Great Depression
 - Postwar “Golden Age” –Neoliberalism

Understanding Neoliberalism

- Multi-dimensional effort to restore business power.
 - Economic, political, and cultural power.
- Response to “problems” of the late Golden Age:
 - Inflation —Worker militancy
 - Falling profits —National liberation
- Two clear cannon shots signaled new era:
 - Economic governance: Volcker shock, interest rates
 - Political governance: Thatcher, Reagan
- Neoliberalism is NOT equivalent to “shrinking the state.”
 - Rather, it redirects policy & power to aid business.

Key Goals of Neoliberalism

- Reduce and control inflation; protect the value of financial wealth.
- Restore insecurity and “discipline” to labor markets.
- Eliminate “entitlements”; force families to fend for themselves.
- Roll back and refocus government activities to meet business needs; cut taxes.
- Generally restore the economic and social dominance of private business and wealth.
- Claw back expectations; foster a sense of resignation to insecurity and hardship.

Key Tools of Neoliberalism

- Use interest rates aggressively to regulate inflation and control labor markets.
- Privatize and deregulate more industries.
- Scale back social security programs (especially for working-age adults).
- Deregulate labor markets (including attacks on unions).
- Use free-trade agreements to expand markets and constrain government interventions.

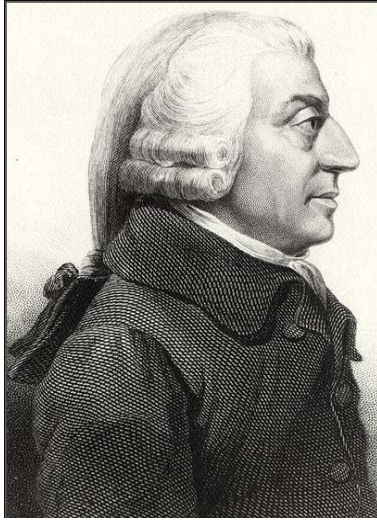
Kinds of Capitalism

- Even under neoliberalism and globalization, different “varieties” of capitalism have been maintained.
 - With very different social and environmental effects.
- 1. Anglo-Saxon model (most unequal)
- 2. Continental model
- 3. Asian model
- 4. Scandinavian model (most equal, inclusive)
- Fighting for improvements in capitalism is possible and important
 - But is it enough??

The History of Economics

- Paralleling the evolution of the economy, economics also constantly evolves.
- But economics is not a neutral science.
- Economic theories and ideas always incorporate values and ideologies.
 - They all aim to criticize or justify particular economic arrangements, not just explain them.
- And economics responds to the problems and controversies experienced in the economy.

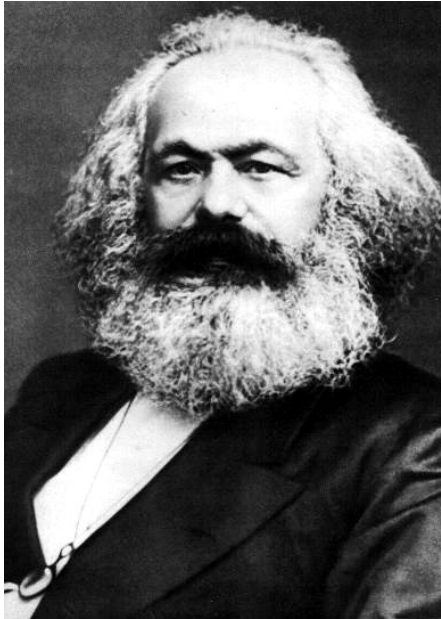
Adam Smith



The Classical Economists

- Wrote at dawn of capitalism.
- Analyzed society in terms of broad classes, historical change.
- Celebrated creativity and thrift of the new class of capitalists.
- Identified division of labor as source of productivity in new industry.
- Believed prices reflected labor values, and that wages tended to subsistence.
- Markets and competition will lead to mutual benefits (including through international trade).

Karl Marx



Karl Marx

- Critiqued the inhumanity and exploitation of capitalism.
- Argued that profit reflects social relations, not the real productivity of capital.
- ◎ Predicted that capitalism would end because of internal conflicts and instability.
- ◎ Recognized that prices do NOT equal labor values, but tried to explain how they are related to labor values.
- ◎ Co-founded international workers' political party.

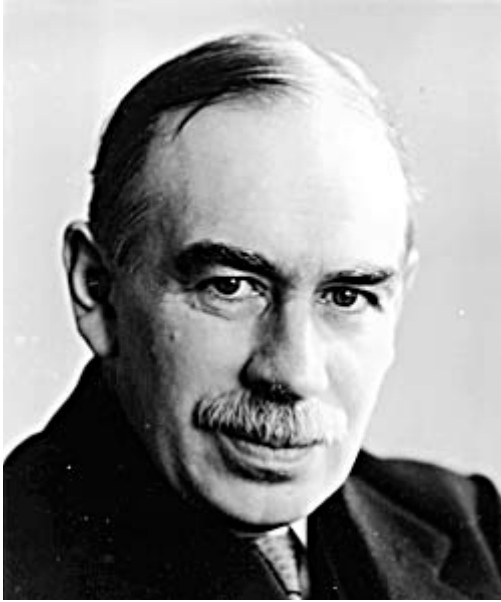
Leon Walras



Neoclassical Economics

- Founded in 1870s as response to Marx's critiques and growth of socialist movements.
- Justified capitalism and the payment of profit.
- Focused analysis on individuals, not classes.
- Theory of general equilibrium, in which all markets (for factors and products) clear.
- Faith in self-adjusting, welfare-maximizing power of markets.
- Came to dominate economics teaching.

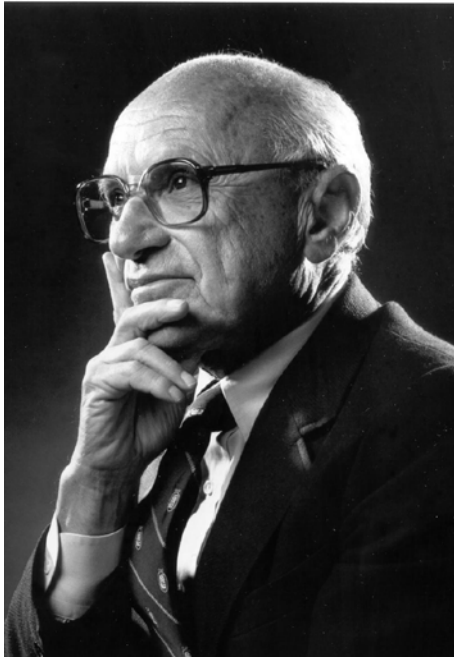
J.M. Keynes



John Maynard Keynes

- Wrote in context of 1930s: prolonged depression which disproved neoclassical model.
- Explained why long-run unemployment might exist.
- Showed that output and employment depend on spending power (“aggregate demand”).
- Advocated government intervention (spending, tax changes) to offset recessions.
- Intellectual underpinning for New Deal policies.
- In long-run, urged socialization of investment.

Milton Friedman



Fundamentalist Reaction

- Neoclassical theory tolerated Keynesian ideas until 1970s.
- Breakdown of Golden Age spurred rejuvenation of core faith in private markets.
- Milton Friedman: government intervention only causes inflation and unemployment.
- Advocated monetary targeting (“monetarism”) to control inflation, labor market “flexibility” (e.g.. deunionization) to solve unemployment.
- Intellectual underpinning for neoliberalism.

Modern Heterodox Ideas

- Neoliberal ideas dominate the economic profession, but not without debate.
- Modern heterodox theorists challenge the theories and the policies.
 - **Post-Keynesians**: Radical interpretation of Keynes; emphasis on uncertainty, role of money.
 - **Marxists**: Predict systemic crisis from over accumulation, over competition.
 - **Structuralists**: Emphasize interactions of class struggles and aggregate demand.
 - **Institutionalists**: Stress role of tradition, institutional inertia in shaping economy.
- The global economic crisis of 2009 has opened space for more debate in economics.

The Politics of Economics

- There is no objective “truth” in economics.
- Economic theory has always tried to keep up with changes in the economy.
- Economic debates have always reflected real-world conflicts and struggles.
- Economics today is used to defend the system.



Joan Robinson: “The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.”

Exercise:

The Evolution of Capitalism and Your Family Tree

- Fill in family tree diagram summarizing the economic history of your family (4 generations)
- Answer several questions illustrating how your family history reflects the evolution of capitalism
 - Geography
 - Class
 - Occupation