


Coronavirus!

Members of the public were told to avoid gatherings of 10 or more



THE WHITE HOUSE
WASHINGTON

ABC News

Trump warns coronavirus crisis could stretch into summer

Watch

Members of the public were told to avoid gatherings of 10 or more and older people and those with underlying condition were asked to stay home.

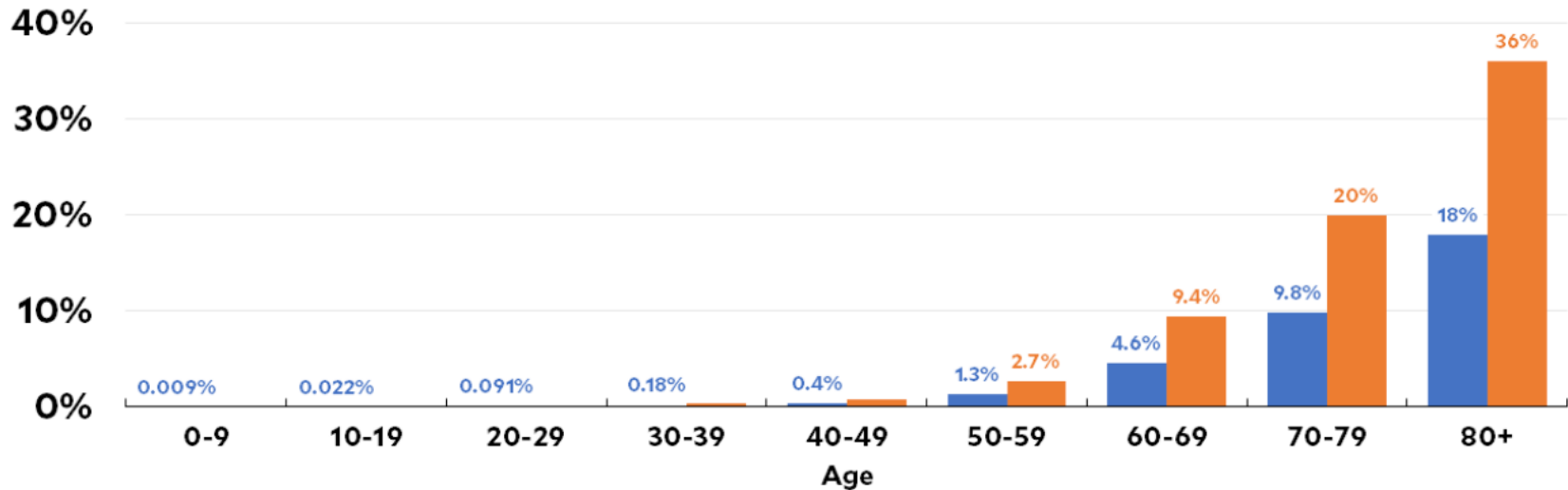
MOAR Coronavirus!

It's a Thing for Geezers!

- Mortality for the Youngs very low...
- It's the flu for them...

Death Rate From Coronavirus

■ = All Infections, ■ = Only Symptomatic Infections



Source: Riou et al.

Mother Jones

MOAR Coronavirus! III

When Is It Appropriate to Move on This?

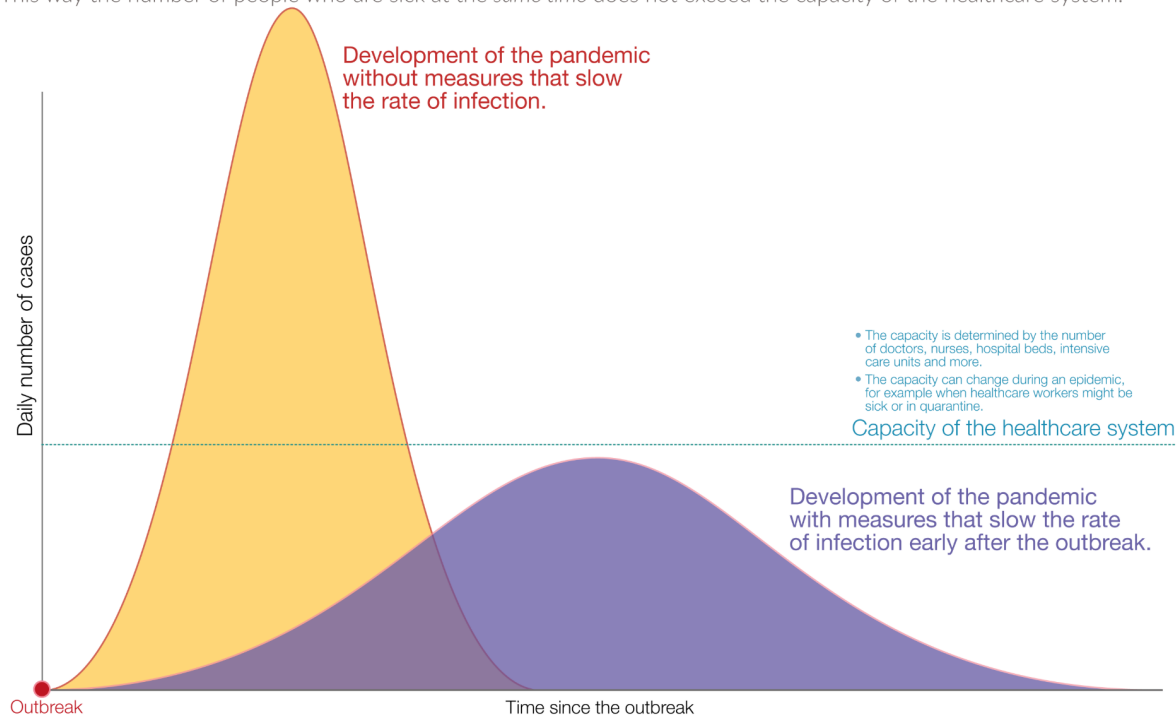
- Immediate social distancing...
- Self-isolate if you have a cough and a fever...
- Hope that warmer temperatures will do to this what they did to SARS...
- Otherwise, when do you want to start spreading out transmission. It seems that early is as good as later...

In the outbreak of an epidemic *early* counter measures are important

Our World
in Data

Their intention is to 'flatten the curve': to lower the rate of infection to spread out the epidemic.

This way the number of people who are sick at the *same time* does not exceed the capacity of the healthcare system.



About the Course

The long 20th century will in all likelihood be seen in the future as *the watershed in human experience*:

- Nine aspects:
 1. History was *primarily* economic—and that was true for the first time...
 2. Explosion of wealth: 2%+ per year...
 3. Cornucopia of technology...
 4. Demographic transition...
 5. Feminist revolution...
 6. Empowered tyrannies...
 7. Wealth gulfs...
 8. Inclusion and hierarchy attenuation...
 9. Mismanagement and insecurity...
 10. The global public health system and global epidemic transmission
- Humanity is unlikely to see as *transformative*—for good and ill, but mostly for good, so far at least, I think—a century again...

U.C. Berkeley: Economics 115: Spring 2020

20th Century Economic History: Lecture

15: The Neoliberal Turn

Brad DeLong

Department of Economics & Blum Center, U.C. Berkeley; & WCEG

delong@econ.berkeley.edu

last revised: 2020-03-24

for delivery: 2020-04-06

<<https://bcourses.berkeley.edu/courses/1487684>>

<<https://github.com/braddelong/public-files/blob/master/econ-115-lecture-15.pptx>>

<<https://www.icloud.com/keynote/0Sv5FBUg6M7YIKB7KrcarUD2g>>

Takeaways from Last Time

From: Really Existing Socialism's End

1. Come up with your own five takeaways from our look at “Really Existing Socialism's End”...

Preview

The Neoliberal Turn

- Takeaways from Last Time
- Preview
- Administration
- Lecture
- Review: ??
- Takeaways from this Lecture

The Neoliberal Turn

The Thirty Glorious Years Raise the Bar:

- But then growth slowed, inflation increased, uncertainty and turmoil springing from oil markets and elsewhere became salient
- Thus the 1970s fail to clear the bar
- Calls for institutional reform of the social democracy that had guided the global north from 1945 became louder and louder
- And the only ideas that were deemed practical for implementation came from the right

Sources of the Productivity Slowdown

Still not clear why productivity growth slowed so much:

- Since 1973 output-per-worker growth as measured by standard statistics in the global north has averaged not the 3% per year of 1938-1973 but rather 1.5% per year
- In long-term historical perspective this is still great:
 - It is equal to the growth rate over 1870-1913
 - That “economic El Dorado” that economists after 1918 desperately wished that they could get back to
- It is still not clear why in the 1970s the growth rate of output per worker in the global north slowed so much and stayed so low relative to its 3% per year of 1938-1973:
 - The easy days of post-WWII “catchup” were over
 - Attention turned to pollution control
 - Increasing uncertainty required increasing flexibility
 - The argument that true economic productivity growth did not slow down at all:
 - The mass distribution of communications, computation, and video and audio entertainment technologies
- But people concluded, with slower growth, that social democracy was failing, and needed reform

Oil Shocks

OPEC realizes it has market power:

- 1973 Arab-Israeli War
- Tripling of world oil prices—and tripling again in 1979 with the Iranian Revolution
- This sent the world economy into a major recession, accompanied by rapid inflation.
- This pushed the world economy toward a much more energy-conserving pattern of production.
- This meant that a lot of people lost real incomes and jobs in ways that would not come back after the recession was over:
- It is possible that the tripling of world oil prices was an intended result not of U.S. foreign policy but of Richard Nixon and Henry Kissinger action as long geopolitical cowboys.
- Kissinger, especially, sought to strengthen the then-Shah of Iran as a counterweight to Soviet influence in the middle east.
- With the oil price tripled, the shah was indeed immensely strengthened—at the price of enormous economic damage to both the industrial and the developing world.

Exchange Rate Disorder

The End of the Bretton Woods System

- With flexible exchange rates in a globalized world...
- Every job and business becomes a speculation on the foreign exchanges
- Nixon wanted higher employment at home
- Germany & co. wanted price stability—did not want to import U.S. inflation
- Treasury Secretary John Connolly wanted bold action
- Milton Friedman assured all that exchange rate instability would not be a disruptive thing
 - He was wrong

The Inflation of the 1970s Itself

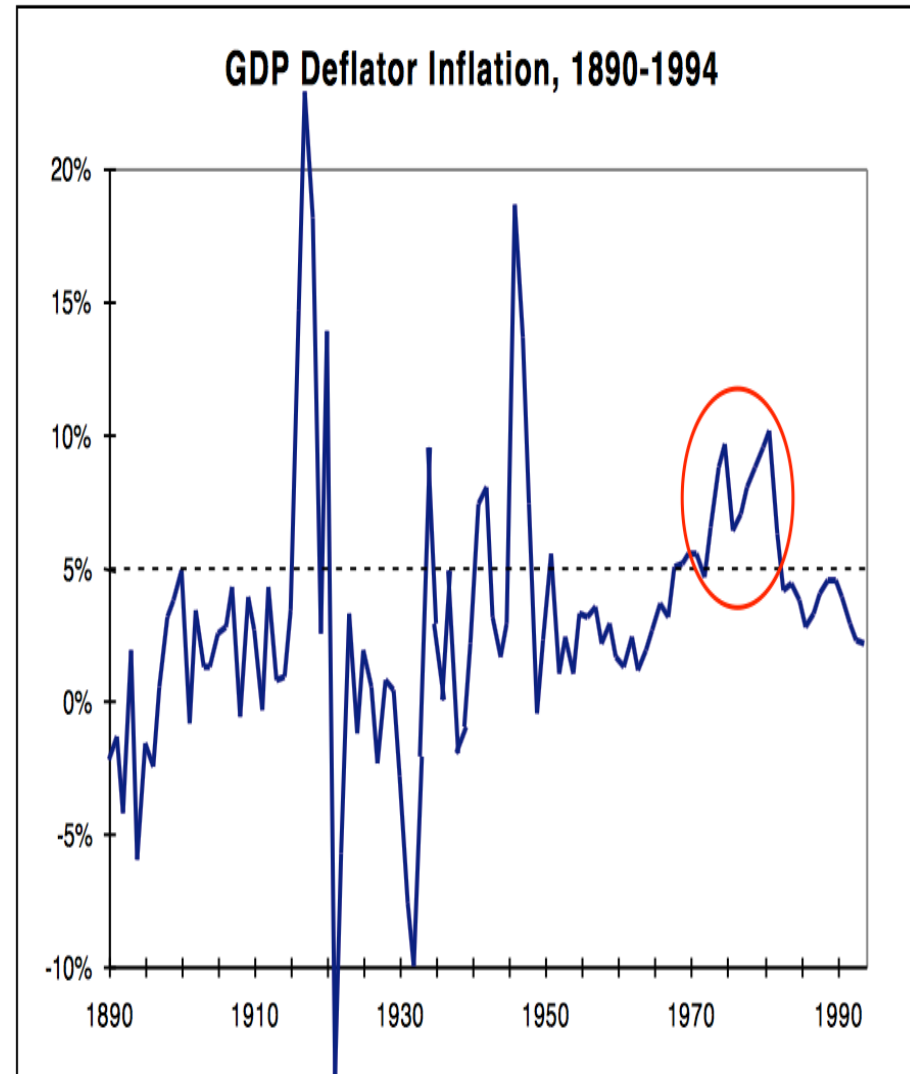
A system that cannot produce stable prices cannot be working

- The only peacetime outburst of inflation
- At a surface level, other goals than reducing inflation took precedence
- At a deeper level, policymakers in the 1970s had bad cards
- At the deepest level, the memory of the Great Depression
 - And bad luck that the inflation came when it did
- The heavy costs of the Volcker disinflation

Deep Causes of the Rise of Neoliberalism

Yet these do not look big enough...

- Lots of theories:
- Mont Pelerin
- “Astroturf”
- Inflation of the 1970s (Krugman)?
- Ethnolinguistic fragmentation (Alesina)?
- Natural drift (Piketty)?
- Pure chance (Reagan and Thatcher)?
- A recognition that social democracy had overreached:
- Disappointments in emerging markets
- Need for deregulation
- Nixon-Ford-Carter oil policy
- The ICC
- The FAA
- Teamsters—and public-sector unions
- Eric Hobsbawm:
- Still, hard to see this as “structural” or inevitable...



Right-Wing Critique: The Curse of Barry Goldwater

At the end of the 1800s American Populism had been broken on the altar of racial animosity

- To some degree the same thing happened in the 1970s
- The Democratic Party shifting to no longer treating African-Americans badly enough
- Barry Goldwater: the Republican Party needs to attract votes—to hunt for ducks where the ducks are
- Consider George Stigler:
 - “The stream of demonstrations, growing in size and in insolence... approved or at least tolerated by the political, intellectual, and religious leaders of the nation... [taught] a semi-literate Negro teenager in a slum... that evil prejudice of the white man was the fundamental cause of his low estate... must lead to hatred, and hatred to violence, and violence to the retardation of the mounting compassion and assistance of the white man...”

Right-Wing Critique: No Right to a Job

Full employment led to greater demands by workers for incomes than could be accommodated:

- Hence chronic inflation
- Or low investment
- Hence monetary policy needed to be in the hands of strongly anti-inflationary central bankers
- My old teacher Martin Feldstein:
 - “Expansionary policies... adopted in the hope of lowering... unemployment... [produced] inflation.... Retirement benefits were increased without considering the subsequent impact on investment and saving. Regulations were imposed to protect health and safety without evaluating the reduction in productivity.... Unemployment benefits would encourage layoffs.... Welfare programs to help [the] poor... weaken family structures...”
- Perception of flaws was not wrong:
 - Who benefitted most from the social insurance state?
 - What did social democratic industrial policy really do?
- Perhaps social democracy might have muddled through
- But Carter, Reagan, Thatcher, SALADS, Falklands

Straws in the Wind...

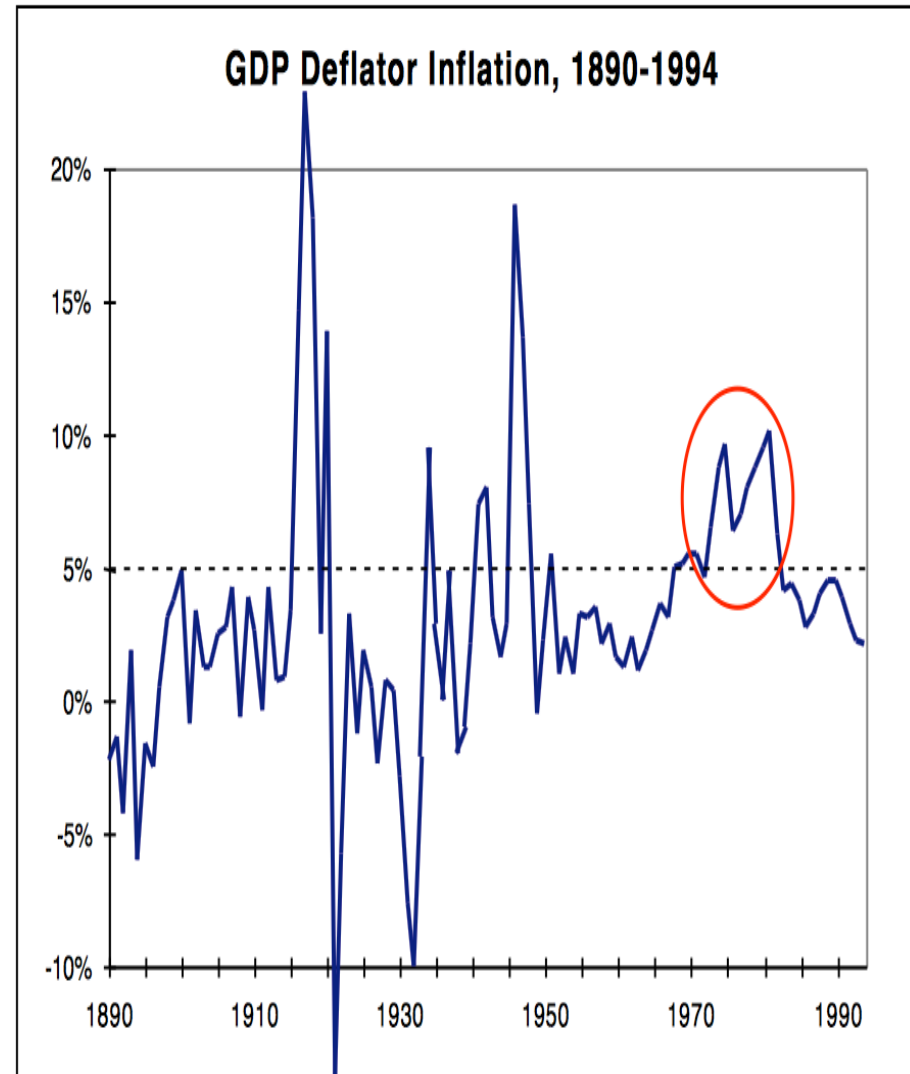
Reagan—and Trump:

- Reagan and the “Welfare Queen”:
 - “She used 80 names, 30 addresses, 15 telephone numbers to collect food stamps, Social Security, veterans’ benefits for four nonexistent deceased veteran husbands, as well as welfare. Her tax-free cash income alone has been running \$150,000 a year...”
- The Age of Trump:
 - “Ezekiel Moreno, 35, a Navy veteran... accepted in WorkAdvance.... That training led him to a job at M&M Manufacturing, which makes aerospace parts, and to steady pay increases. ‘We’ve moved out of an apartment and into a house,. My daughter is taking violin lessons, and my other daughter has a math tutor.’ Moreno was sitting at a table with his boss, Rocky Payton....
 - “All said they had voted for Trump... were bewildered that he wanted to cut funds that channel people into good manufacturing jobs. ‘There’s a lot of wasteful spending, so cut other places,’ Moreno said. Payton suggested that if the government wants to cut budgets, it should target ‘Obama phones’ provided to low-income Americans. (In fact, the program predates President Barack Obama and is financed by telecom companies rather than by taxpayers.)...
 - “I was struck by how loyal they remain to Trump...”
- The cossacks work for the czar

Types of Neoliberalism

Distinguish three versions:

- Outside (something inflicted on other people)
- Hard (right)
 - Reagan and Thatcher
 - Discipline and incentives
 - Maintain hierarchies
 - Make the rich richer and the poor poorer
- Soft (left)
 - Crowdsource solutions
 - A better means to social democratic ends
 - Keynes's take



“Outside” Neoliberalism

The “Washington Consensus:

- Growth now; distribution is a task for a generation from now—or two
1. Emerging market economies should not choose their own policies—they should be dictated to. (and developed economies should adopt these policies too);
 2. Fiscal policy discipline—no Keynesian stimulus (monetary policy can substitute whenever it is desirable);
 3. Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
 4. On taxes, broaden the base and lower the rates;
 5. No financial repression;
 6. No exchange rate manipulation;
 7. Trade liberalization, with particular emphasis on elimination of licensing;
 8. Liberalization of FDI;
 9. Privatization;
 10. Deregulation: abolition of regulations that impede market entry or restrict competition
 11. Greater respect for property rights.
 12. Independent inflation-focused central banks—the “Great Moderation”

Development of “Hard” Neoliberalism

Ronald Reagan and Margaret Thatcher:

- The economy is not unequal enough
- The job creators are not properly rewarded
- An “incentives” argument?
- Or a “moral worth” argument?
- All government regulation guilty—not a rebuttable presumption
- Maximum friendliness toward financial deregulation
- Government “regulation” includes antitrust policy
- Abandonment of the competitive market as an ideal



Hard Neoliberalism: Mitt Romney

“47%”:

- “There are 47 percent who are with [Obama], who are dependent upon government, who believe that they are victims, who believe that government has a responsibility to care for them, who believe that they are entitled....
- “People who pay no income tax....
- “My job is not to worry about those people—I’ll never convince them that they should take personal responsibility and care for their lives...”



Hard Neoliberalism: Ann Romney

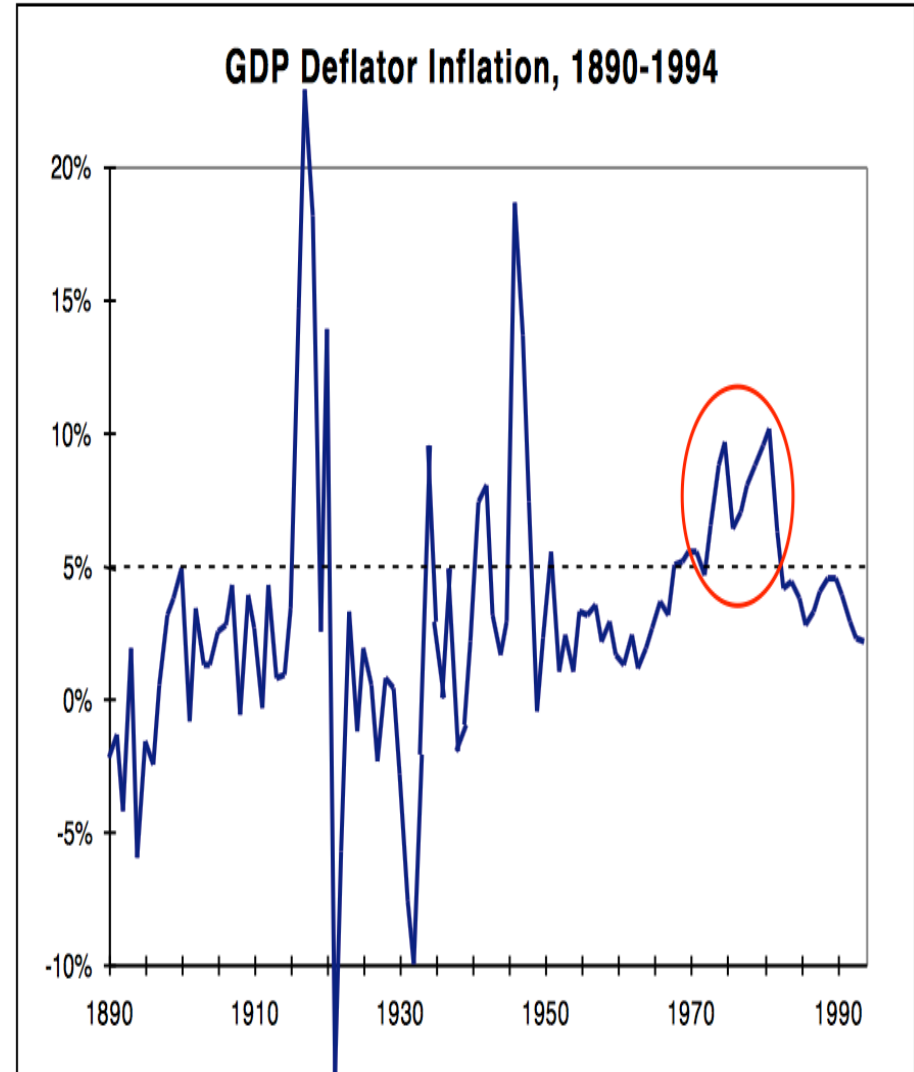
People oblivious to reality:

- Ann Romney: “They were not easy years... a \$62-a-month basement apartment.... I didn’t have money to carpet the floor. But you can get remnants, samples, so I glued them together, all different colors. It looked awful, but it was carpeting.... Mitt had enough of an investment from stock that we could sell off a little at a time.... Mitt and I walked to class together, shared housekeeping, had a lot of pasta and tuna fish and learned hard lessons...”
- Former (Democratic) Texas Governor Ann Richards on George W. Bush: “Born on third base, and thinks he hit a triple...”

“Soft” Neoliberalism

Bill Clinton and Tony Blair:

- Market means to social democratic ends...
- Jimmy Carter and deregulation:
- The energy industry
- Price controls, “old oil”, “new oil”, etc.
- Gasoline lines
- The Interstate Commerce Commission
- Protecting farmers from price gougers, or protecting railroads’ profits?
- Protecting railroads and teamsters
- The FAA



Development of “Soft” Neoliberalism

Give the mic to Nicholas Lemann:

- Nicholas Lemann:
- “The prospect of replacing interest group liberalism with something... better targeted... and also more effective, was deeply alluring...
- “Deregulating industries, using the power of markets... embracing technology, targeting... programs on people who really needed them, helping consumers rather than politically connected businesses, taking down trade barriers...
- “Reducing the power of the Democratic Party establishment and the labor unions, orienting government toward the public interest rather than toward interest groups....
- “Our scorn for interest group liberalism led us to undervalue the process of people organizing themselves and pushing the political system...
- “Eliminating all those structures that struck us as outdated... [wound] up working to the advantage of elites more than of the ordinary people...
- “It’s a cruel irony... that our preferred label for ourselves, neoliberal, has come to denote political regimes maximally friendly to the financial markets...
- “I’ve come to see the merits of the liberal structures I scorned in my younger days...
- Growth and stability now—repair of the distribution later
- Regulation guilty unless proven innocent
- Abandon fiscal policy and turn macroeconomic management over to “technocrats”

Neoliberalism in Power

The right-wing governments of the 1980s were not terribly successful in their policies:

- Inflation did come down
- But unemployment rose
- Productivity growth did not speed up
- Income distribution became more unequal
- Belief that a tax cut was the pressure point to accomplish hard right neoliberal reform
 - Things did not turn out as expected...

The Reagan Budget Deficits

Legislators turned out to like their programs more than they feared deficits:

- Should not have been a surprise: how did “weak claims” on the government’s money rise in the first place?
- Large, permanent deficits producing high interest rates, making exports uncompetitive, reducing investment and productivity growth
- Government policies much more destructive of economic growth than social democracies flaws had been
- A bitter pill for those who had hoped to actually enact pro growth policies
 - But policies successfully pro-rich

More Consequences of the Reagan Budget Deficits

Budge deficits and deindustrialization:

- Budget deficits in the 1980s led to high interest rates
- High interest rates mean a high value of the dollar
- Sent a powerful signal that the U.S. valued finance much more than manufacturing
- A false signal
- One that started manufacturing in America on its extraordinary relative decline
 - The “rust belt”

Hard Neoliberalism: The Return of the Business Cycle

The seismic shift:

- Full employment no longer a high priority
- Exchange rate instability a source of transmission of shocks
 - The third world debt crisis of the 1980s
 - In the 1990s: collapse of the EMS, Mexican peso, East Asian
 - Feckless borrowers and silly governments blamed...
- Setting the stage for the Great Recession of 2008-

False Idols

Milton and Rose Director Friedman: *Free to Choose*:

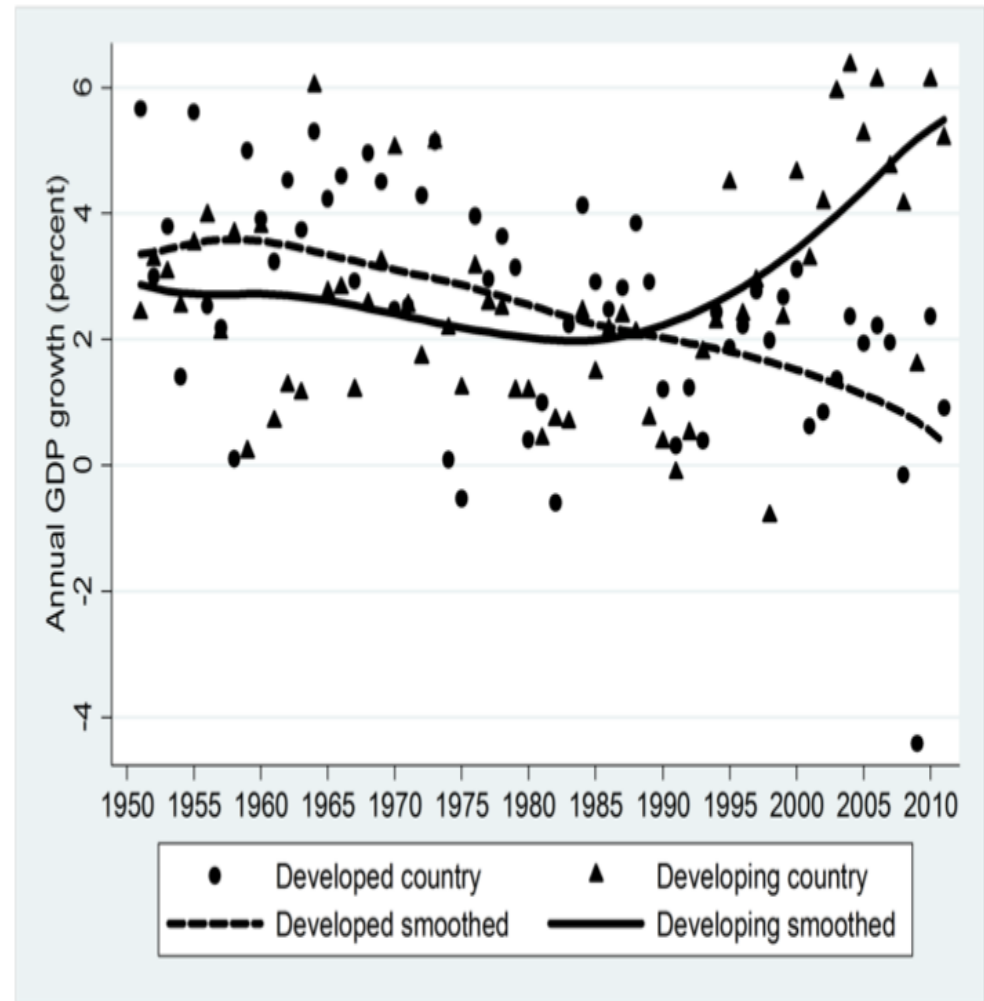
- Macro distress caused by the government
- Externalities small and best handled judicially
- Market distribution of income relatively egalitarian
- Alas, all wrong:
 - Bernanke's implementing of the Friedman macro playbook did not work
 - Externalities of growing importance in the “new economy”
 - Second Gilded Age inequality not the result of laws that kept Blacks down and women underpaid

Balance Sheet on “Neoliberalism”: Global North

Horrible for income inequality. Otherwise?:

- A zero—or a negative—for growth in the Global North
- Thus a significant minus for societal well-being in the Global North
- Plus a huge minus in the vulnerability created by financial deregulation
- Plus the hobbling of the response to financial crisis in 2007-8 that brought on the Great Recession:
 - Much too much of: “the market giveth, the market taketh away, Blessed be the name of the market”
 - Much too little of: “the market was made for man, not man for the market”

Figure 1.1 Growth Trends in Developed and Developing Countries, 1950–2011



Source: Updated from Rodrik 2011b.

“Neoliberalism” and Globalization

Neoliberalism was supposed to ease the financing constraint:

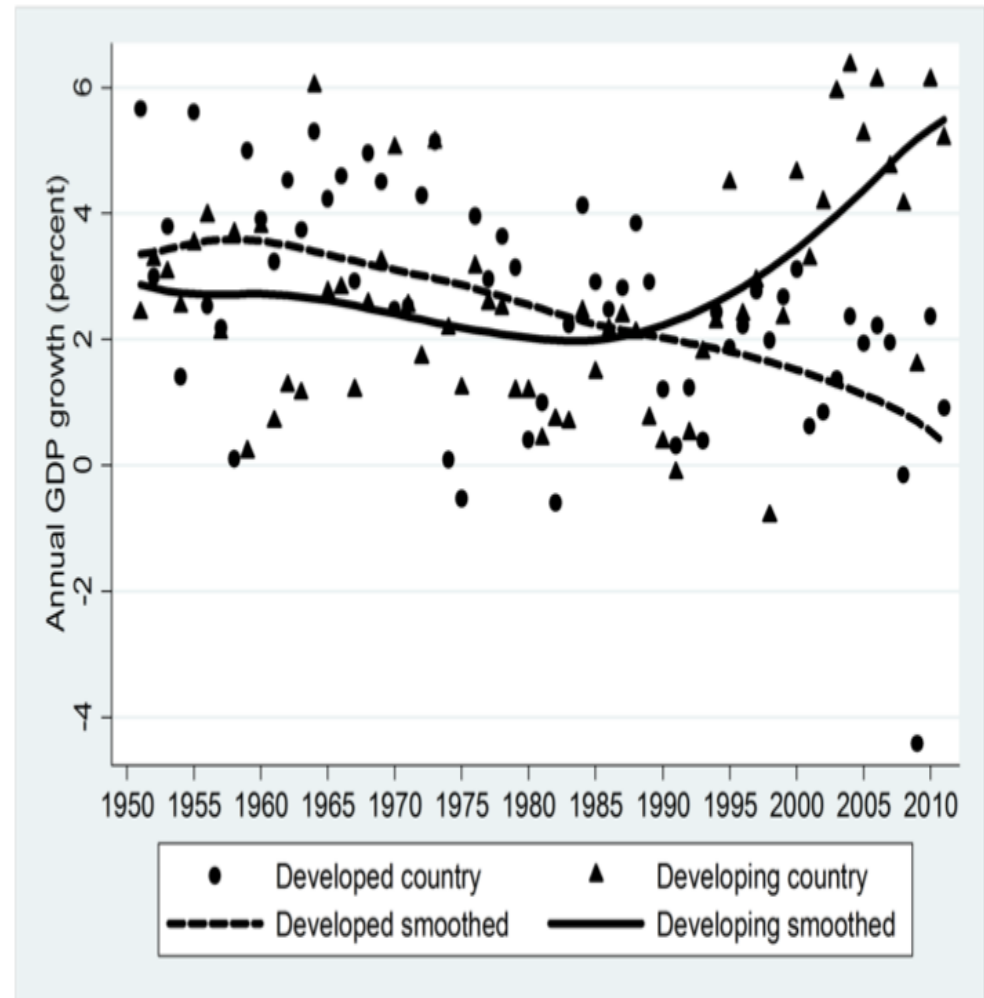
- Relax capital constraints on non-politically connected
- Diminish rent-seeking and kleptocracy
- The hope was for the creation of a regime like that of 1870-1914
 - When British (and French) capital helped massively in the industrialization and economic growth of the temperate regions of European settlement
- It did not happen
- Instead, capital flowed from the periphery to the core
- The rich of the global south greatly valued the political risk insurance from putting their money in the United States or Britain
 - Or Switzerland, or the Cayman Islands

Balance Sheet on “Neoliberalism”: Global South

A big plus for the Global South:

- Is this more than China and India?
- But isn't that enough?
- Plus the manufacturing exporters...
- The EA5: Japan, Singapore, Hong Kong, Korea, Taiwan
- The I6: China, Korea, India, Indonesia, Thailand, and Poland
- The R12: I6 + Brazil, Nigeria, Australia, Mexico, Venezuela, and Turkey
- Did the “Washington Consensus” work? —for next time

Figure 1.1 Growth Trends in Developed and Developing Countries, 1950–2011



Source: Updated from Rodrik 2011b.

Neoliberalism in the Global North: Unsuccessful, But It Persisted

!?!?!? Why!?

Bait and Switch?

Utopian hopes for social democracy after WWII:

- Fulfilled and overfulfilled for the first generation
- The raising of expectations
- Flaws of social democracy
 - Commanding heights
 - Overreach on macro policy
 - Claims that it had overreached on income distribution—the new class
- Neoliberalism I (left): redraw the boundary and thus the mix of the mixed economy
- Neoliberalism II (right): the market giveth, the market taketh away, blessed be the name of the market

The Coming of the Second Gilded Age

The biases of neoliberalism—both soft and hard:

- Toward cutting taxes—first and last resort
- Toward market mechanisms
- Toward allowing monopolies to entrench
- Hobbling governments ability to respond
 - No Marshall Plan II in 1990, with the collapse of really existing socialism
- Huge rise in income inequality
 - That then fulfilled none of its supposed missions

Thomas Piketty

Social democracy is an anomaly:

- A Gilded Age is the rule
- Even with political democracy
- In a capitalist economy:
 - It is normal for a large proportion of the wealth to be inherited.
 - It is normal for wealth distribution to be highly unequal.
 - It is normal for a plutocratic elite to shape the economy and the polity
 - And it is normal for this to put a drag on economic growth.
 - Rapid growth like 1945-1973 requires creative destruction
 - One thing destroyed would be the plutocrats' wealth
 - So they are unlikely to encourage it
- Conclusion: In Piketty's view, we are likely to see oscillations between periods like 1870-1914, 1914-1945, and 1980-2020
 - The 1945-1980 social democratic era was a freak anomaly

Financialization

The rise in American finance from 3% to 8% of national income:

- Are we getting good value from this?
- Such a bill worth paying, at a 5%/year real interest rate for risky cash flows, only if it boosts growth by 0.3%/year.
- That compounds to 6% over a generation
- Where is our 6% boost to productivity enabled by the hypertrophy of finance?:
 - In better diversification?
 - In matching those who rationally fear risk with those who can rationally bear it?
 - In mobilizing savings for investment?
 - In improving household liquidity?
 - In better corporate governance?
 - In making transactions easier?
- It is very hard to see what a 3% of national income finance system like the one of the 1950s failed to do that is worthwhile.

Looking Forward to 2007 and Beyond

Why no obvious dividends to financialization?:

- Two ways to make money in finance
 - Match people with risks to people with unused risk-bearing capacity
 - Match people with risks to people who do not understand what they are getting into
- It seems likely that most of the growth in finance stems from a rising share of financial professionals who undertake the latter
- One consequence of the Second Gilded Age was that
 - When the Great Recession came along, and when recovery from the Great Recession was delayed and hesitant
 - The government and the political system barely seemed to care
 - The rich dominated public discourse
 - And the rich had been rescued over 2008-10
- In America, increased animosity on the political right toward people who are not white or whose grandparents were not born in the United States
 - Conventional in many circles to make fun of those who blame this on “economic anxiety”.
 - This is short-sighted
 - The economy since 2007 has proved gravely disappointing
 - Both in income growth
 - And in perceived satisfaction of Polanyian rights.
- People seek for someone to blame
- People seek for something to change

Readings

Key readings:

- Readings: Dani Rodrik (2013): The Past, Present and Future of Economic Growth <http://tinyurl.com/dl20161210c>
- Christian Dustmann et al.: From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy <http://tinyurl.com/dl20161210ac>

Review: Broad Sweep

What was the growth rate of *ideas* in the industrial core of the world economy over 1870-2020?

- A.About 2.3%/year
- B.About 0.9%/year
- C.About 0.23%/year
- D.About 4%/year
- E.None of the above

Review: Broad Sweep

What was the growth rate of *ideas* in the industrial core of the world economy over 1770-1870?

- A. About 2.1%/year
- B. About 0.45%/year
- C. About 0.15%/year
- D. About 0.04%/year
- E. None of the above

Takeaways from This Time

The Neoliberal Turn

1. Give me five takeaways...

Notes: What Was Unconvincing Today?

**Mistakes and unclarities:
typos, wordos, and
mindos...**

- In the DRAFT textbook?
- In the lecture?



Catch Our Breath...

- Ask a couple of questions?
- Make a couple of comments?
- Any more readings to recommend?

