

# 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...

# Coronavirus!

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



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.

# Coronavirus

## Where we think we are, as of Mo Apr 6:

- We really do not know
- No random samples...
- Best thing I have read comes from Jim Stock <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>:
  - The basic SIR epidemiological model of contagion
  - The effect of social distancing and business shutdowns on epidemic dynamics enters the model through a single parameter: the case transmission rate  $\beta$
  - Re-express the model in terms of  $\beta$  and the asymptomatic (or not very symptomatic) hence non-tested rate—the fraction of the infected who are not tested
  - The COVID-19 non-testing rate is unidentified in our model
  - Estimates in the epidemiological literature range from 0.18 to 0.86.
    - The asymptomatic rate could be estimated accurately and quickly by testing a random sample
- The optimal policy response and its economic consequences hinge critically on the asymptomatic rate

Coronavirus Extrapolations						
Date	Deaths	Cases = Deaths x 100	Constant Weekly New Cases	Cases = 5 x Cases(-3)	Cases = 20 x Cases (-3)	Cases = Cases (-3) x exp(3 x week ch)
2020-04-05	9618		3,102,000	4,809,000	19,236,000	55,832,145
2020-03-29	2484		869,400	1,242,000	4,968,000	53,654,400
2020-03-22	414		144,900	207,000	828,000	8,942,400
2020-03-15	69	961,800	19,800	34,500	138,000	128,966
2020-03-08	26	248,400	10,100	13,000	52,000	45,697,600
2020-03-01	1	41,400	370	500	2,000	100,000
2020-02-23		6,900	37	50	200	10,000
2020-02-16		2,600	4	5	20	
2020-02-09		100				
2020-02-02		10				
2020-01-26		1				
		0				

<https://www.incloud.com/numbers/0FzRFArAOnIAin4VJWWIWIC0>

Coronavirus Cases:

**1,342,235**

[view by country](#)

United States



Coronavirus Cases:

**364,059**

Deaths:

**74,554**

Deaths:

**10,792**

Recovered:

**278,182**

Recovered:

**19,536**

USA State	Tot Cases/ 1M pop	Deaths/ 1M pop
USA Total	1,100	33
New York	6,662	243
New Jersey	4,626	113
Michigan	1,729	73
California	404	10
Louisiana	3,188	110
Massachusetts	2,026	38
Florida	662	12
Pennsylvania	1,016	13
Illinois	956	24
Washington	1,095	46
Texas	263	5
Georgia	710	22

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### Coronavirus Extrapolations

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<https://www.icloud.com/numbers/0FzRFAoAQoiAin4V.IWYWIWICQ>

Coronavirus Case



United States

**1,342,235**

[view by country](#)

Coronavirus Cases:

**364,059**

Deaths:

**74,554**

Deaths:

**10,792**

Recovered:

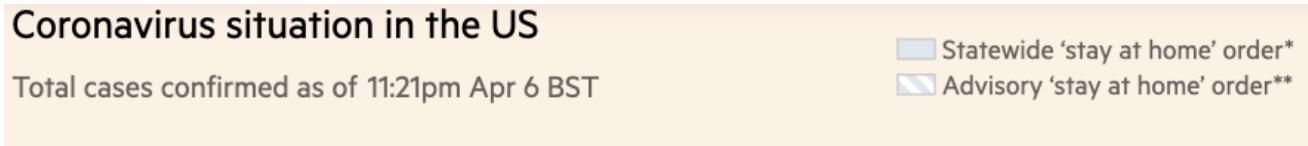
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Texas	263	5
Georgia	710	22

# Financial Times Graphs Blown Up...



Italy and Spain every day bring

Daily coronavirus c

2,000

1,000

500

200

100

50

20

10

5

2

1

1 decline,

first recorded

L TIMES

50,000

20,000

10,000

5,000

2,000

1,000

500

200

100

50

20

70

10

China

Graphic: Steven Bernard and Cale Tilford

Sources: Johns Hopkins University, CSSE; Worldometers; FT research

© FT

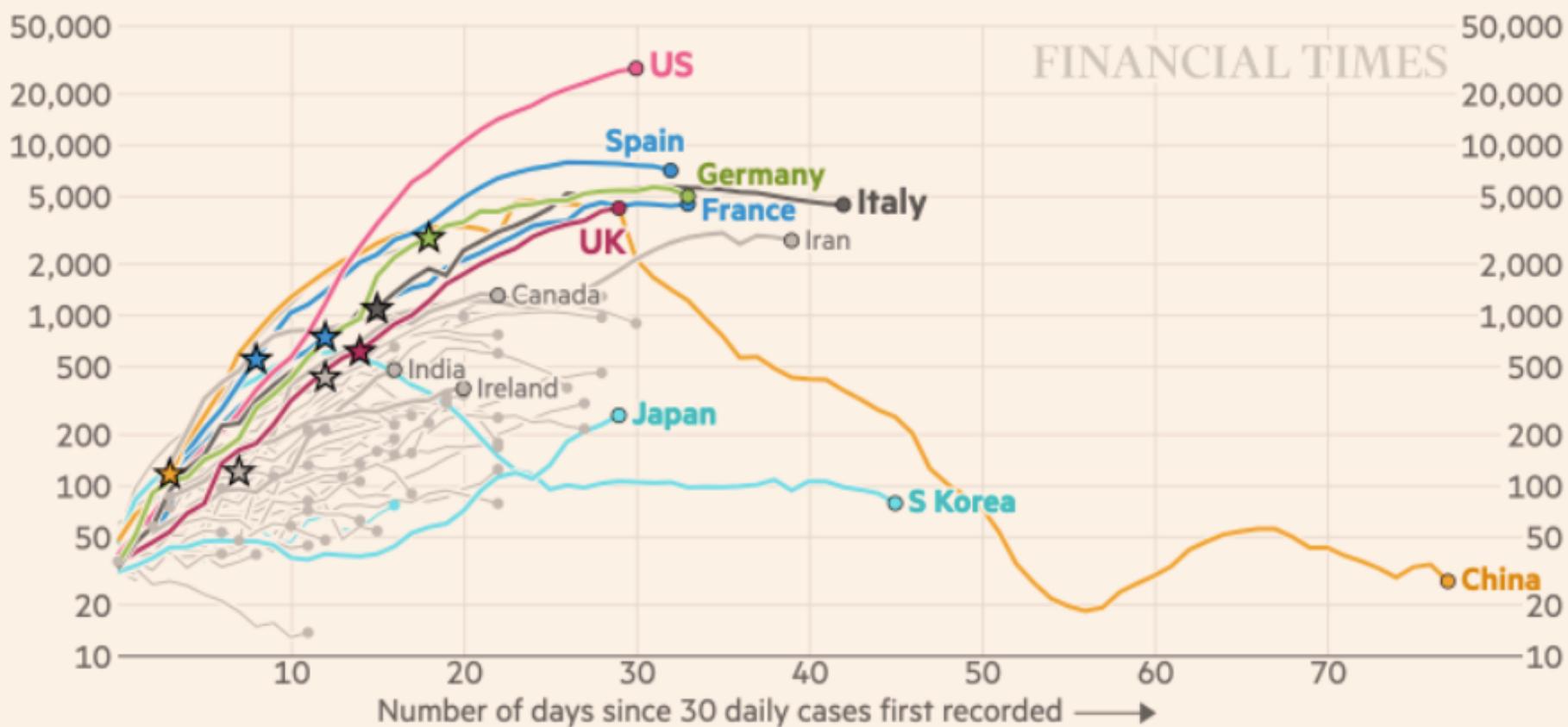
\*Includes 'shelter in place' orders and those that have yet to go into effect

\*\*Includes Kentucky's 'healthy at home' order

# Italy has turned the corner, with numbers of new cases now in decline, following in China's footsteps

Daily confirmed cases (7-day rolling avg.), by number of days since 30 daily cases first recorded

Stars represent national lockdowns ★



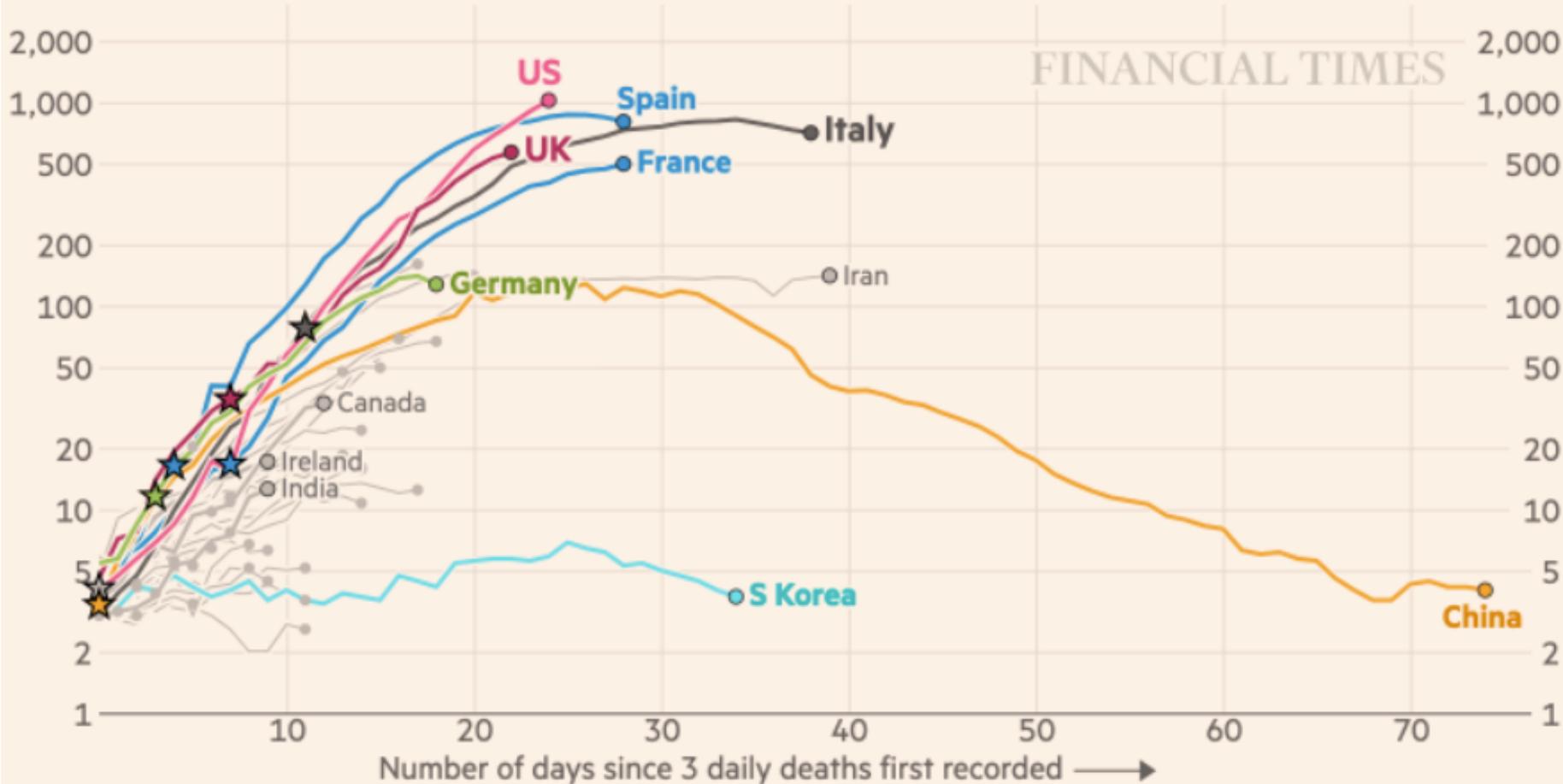
FT graphic: John Burn-Murdoch / @jburnmurdoch

Source: FT analysis of European Centre for Disease Prevention and Control; Worldometers; FT research. Data updated April 06, 19:00 GMT

© FT

# Italy and Spain's daily death tolls are plateauing, but in the UK and US every day brings more new deaths than the last

Daily coronavirus deaths (7-day rolling avg.), by number of days since 3 daily deaths first recorded



FT graphic: John Burn-Murdoch / @jburnmurdoch

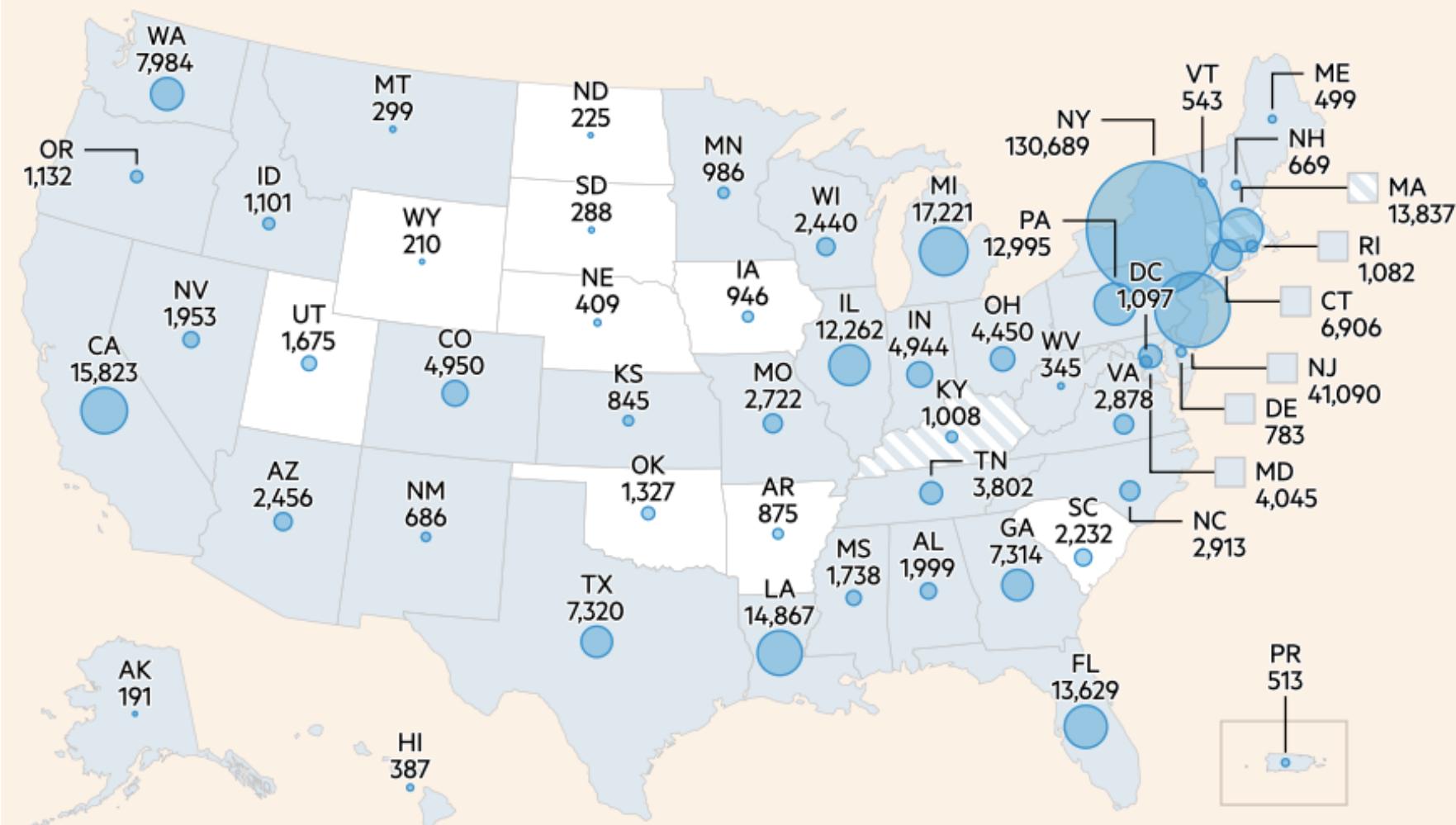
Source: FT analysis of European Centre for Disease Prevention and Control; Worldometers; FT research. Data updated April 06, 19:00 GMT

© FT

# Coronavirus situation in the US

Total cases confirmed as of 11:21pm Apr 6 BST

- Statewide 'stay at home' order\*
- Advisory 'stay at home' order\*\*



Graphic: Steven Bernard and Cale Tilford

Sources: Johns Hopkins University, CSSE; Worldometers; FT research

© FT

\*Includes 'shelter in place' orders and those that have yet to go into effect

\*\*Includes Kentucky's 'healthy at home' order

# James Stock (2020)

**Standard SIR model:** <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>:

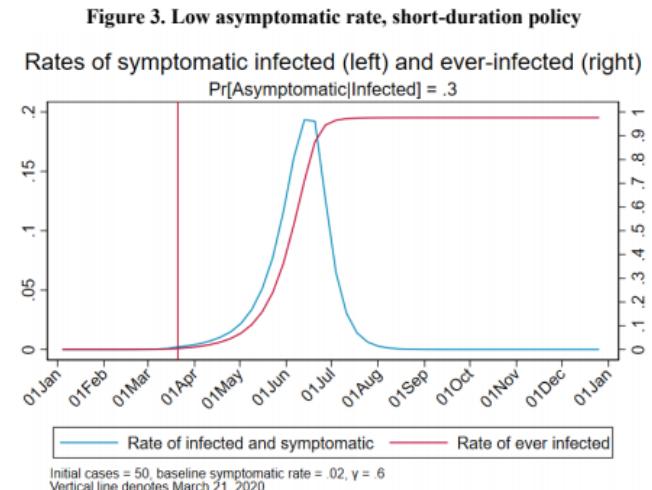
- Susceptible, Infected, Recovered (& immune), transmission rate  $\beta$ , recovery rate  $\gamma$ , reproduction number  $R_0$ , asymptomatic hence non-tested rate  $\pi_0$
- Calibration: half-life of infection one week:  $\gamma = 0.5$ ,  $s_0 = 0.02$ , 50 cases on Jan 24
- For March 21, 2020, the positive test rate in the United States is approximately 10%...

$$\Delta S_t = -\beta I_{t-1} \frac{S_{t-1}}{N}$$

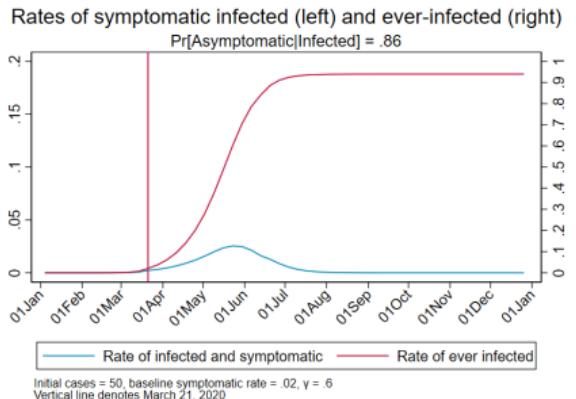
$$\Delta R_t = \gamma I_{t-1},$$

$$\Delta I_t = \beta I_{t-1} \frac{S_{t-1}}{N} - \gamma I_{t-1}$$

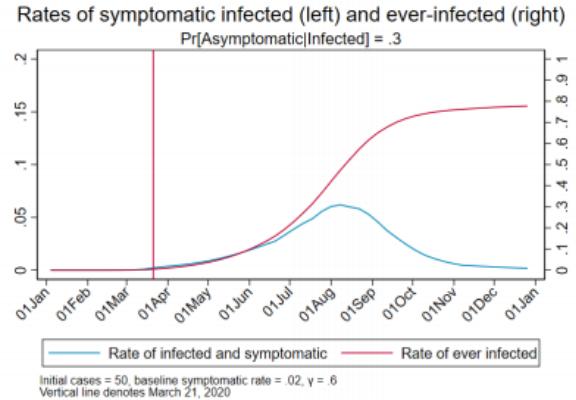
<<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>



**Figure 2. High asymptomatic rate, short-duration policy**

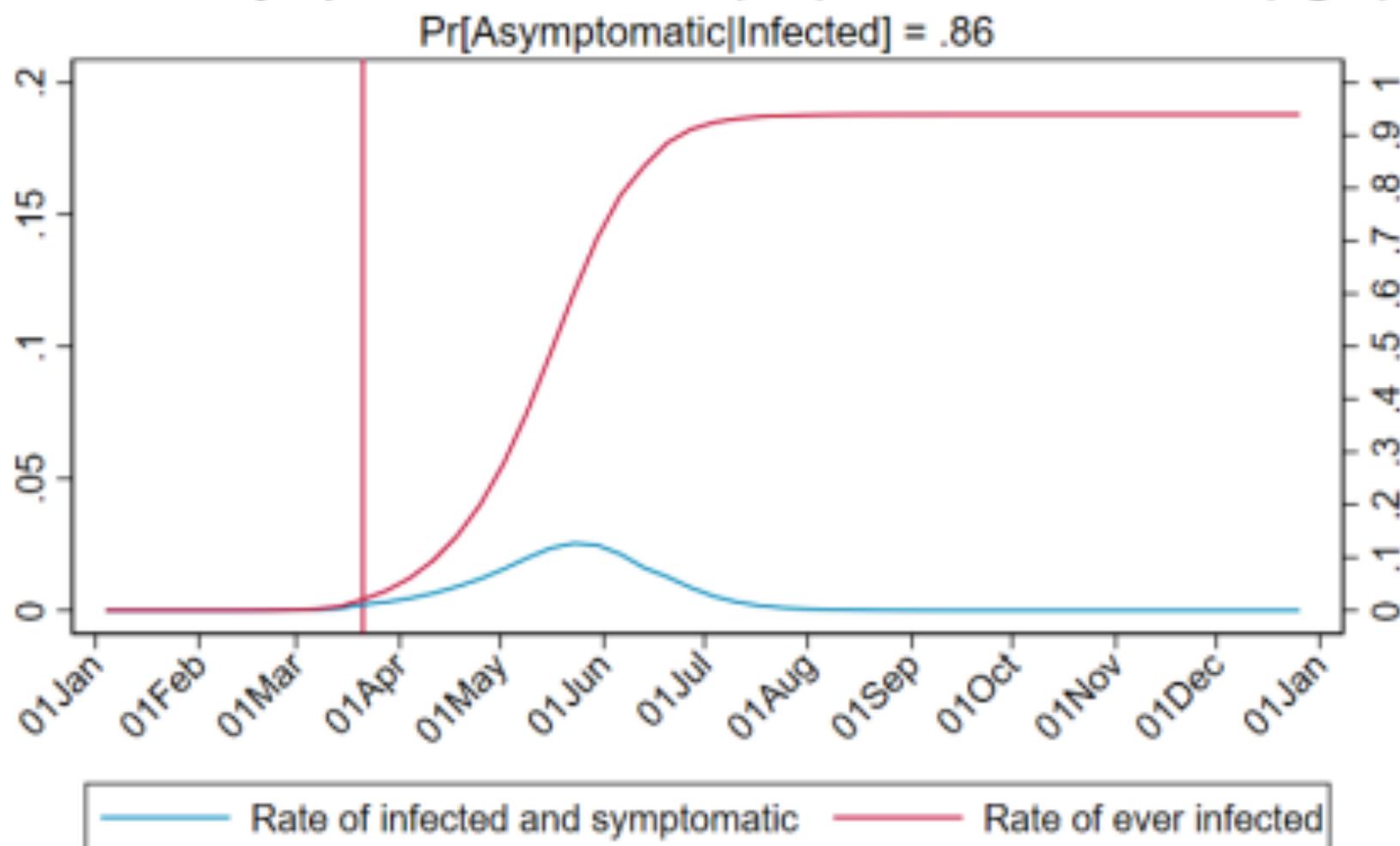


**Figure 4. Low asymptomatic rate, severe long-duration policy**



**Figure 2. High asymptomatic rate, short-duration policy**

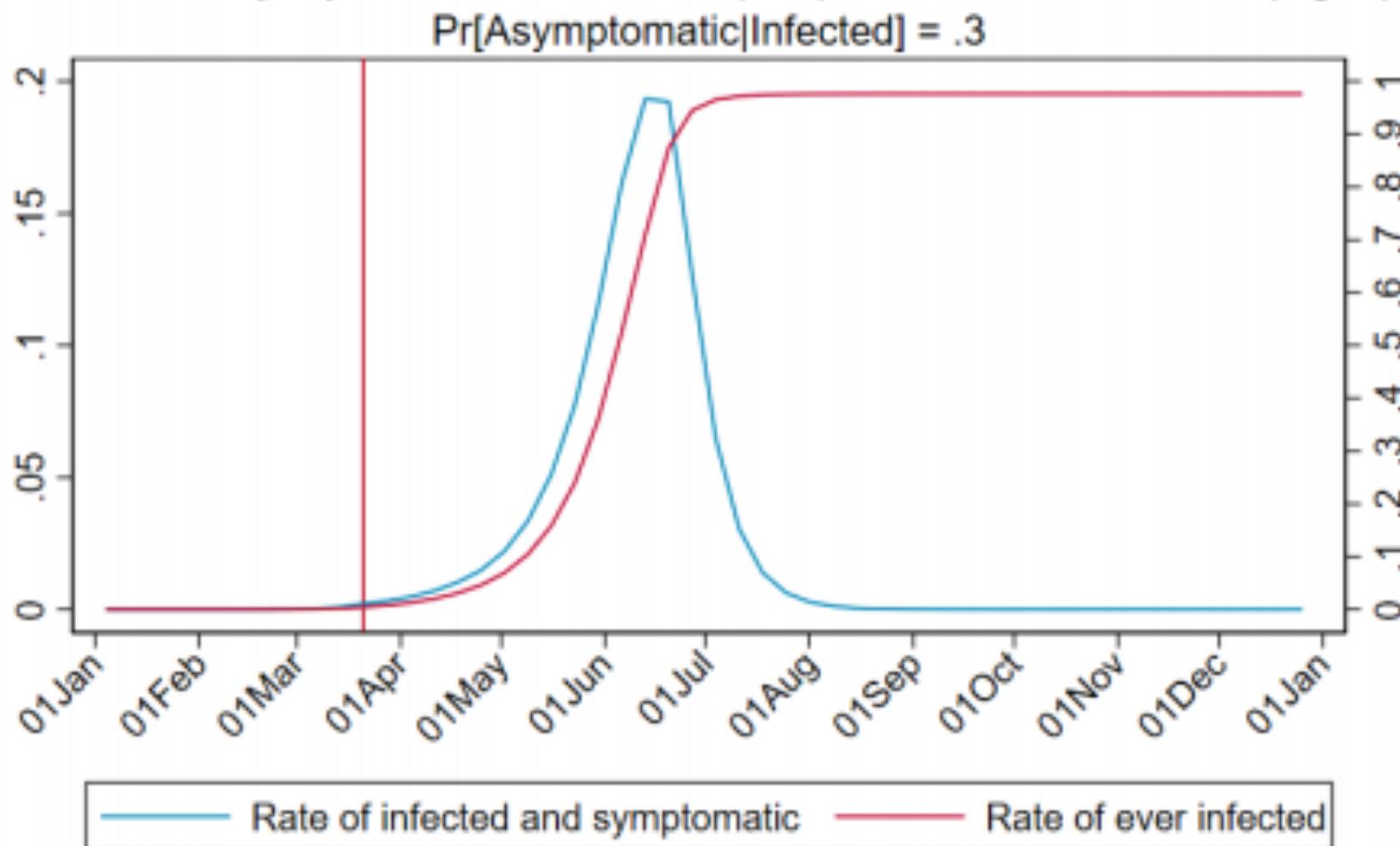
Rates of symptomatic infected (left) and ever-infected (right)



Initial cases = 50, baseline symptomatic rate = .02,  $\gamma = .6$   
Vertical line denotes March 21, 2020

**Figure 3. Low asymptomatic rate, short-duration policy**

Rates of symptomatic infected (left) and ever-infected (right)

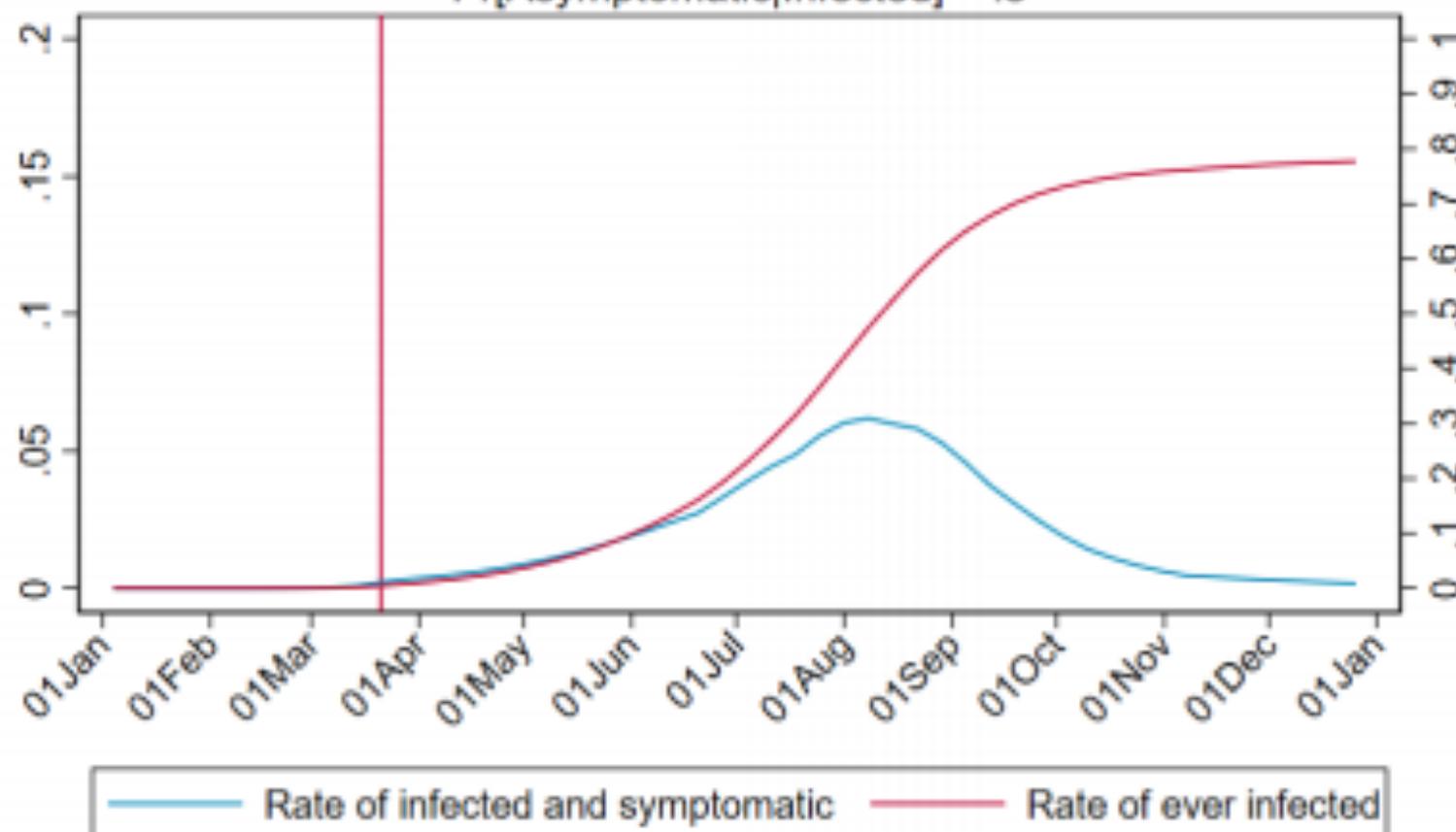


Initial cases = 50, baseline symptomatic rate = .02,  $\gamma = .6$   
Vertical line denotes March 21, 2020

**Figure 4. Low asymptomatic rate, severe long-duration policy**

Rates of symptomatic infected (left) and ever-infected (right)

$$\Pr[\text{Asymptomatic} | \text{Infected}] = .3$$



Initial cases = 50, baseline symptomatic rate = .02,  $\gamma = .6$   
Vertical line denotes March 21, 2020

$$\Delta S_t = -\beta I_{t-1} \frac{S_{t-1}}{N}$$

$$\Delta R_t = \gamma I_{t-1},$$

$$\Delta I_t = \beta I_{t-1} \frac{S_{t-1}}{N} - \gamma I_{t-1}$$

# Bringing the Economy Back Up from Anæsthesia

## Major issues:

- Certificates of immunity:
  - Which requires test, test, test:
    - And not just disease virus tests
    - Presence-of-antibodies tests
- How quickly can we match the immune with public-contact jobs?
- What jobs can be done with minimal infection risk?
- What minimal-infection substitutes can we find for previous jobs?
- How quickly can restrictions be relaxed without the virus coming roaring back?
- How do we avoid having the market give a “shutdown” signal to enterprises we in fact want restarted?
  - Which is pretty much all of them
- How much of the potential caseload do we want to push out beyond the vaccine-arrival date?

**ALL THESE QUESTIONS ARE ANSWERABLE IF WE LEARN THE ASYMPTOMATIC HENCE NON-TESTED RATE!!**

# Keeping the Economy from Crashing During the Lockdown

**Nick Rowe: We have a 50% output cut in 100% of the sectors:**

- A temporary 100% output cut in 50% of the sectors (what the Coronavirus does) is very different from a 50% output cut in 100% of the sectors
- Nick's thought experiment:
  - In three months we are going to invent unobtanium:
    - Substantial intertemporal substitutability
    - Plus lower cross-good contemporaneous substitutability
    - Hence high desired savings rate now
  - Flex-price market thus produces a nominal rate at the zero lower bound and a high inflation rate over the next three to six months
  - Plus liquidity-constrained workers in affected sectors see their demand go to zero immediately
  - Can we get there? Should we get there? What should we do instead?
  - We need a good RBC economist: are there any?...

# Keeping the Economy from Crashing During the Lockdown II

**Nick Rowe <[https://worthwhile.typepad.com/worthwhile\\_canadian\\_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html](https://worthwhile.typepad.com/worthwhile_canadian_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html)>:**

- Plus: to extend the thought experiment:
  - We just lost the ability to make “unobtainium”
  - So we *should* be substituting leisure for work, and moving workers into relatively unproductive labor, making the commodities we can still produce right now
  - How should relative prices move as a result? How should we make them move?

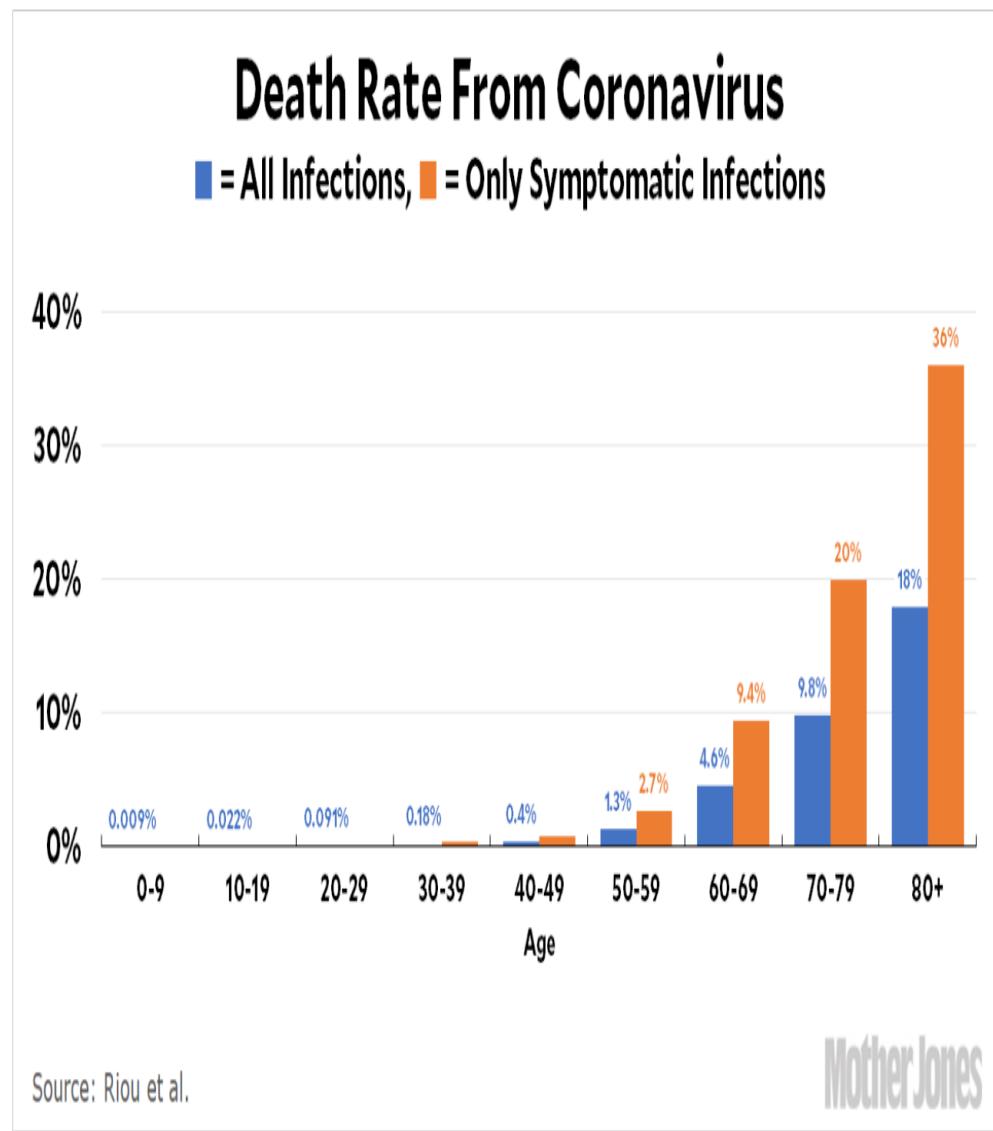
**Plus: distributional issues**

**Plus: bankruptcy and credit chain issues**

# MOAR Coronavirus!

## Death for Geezers!

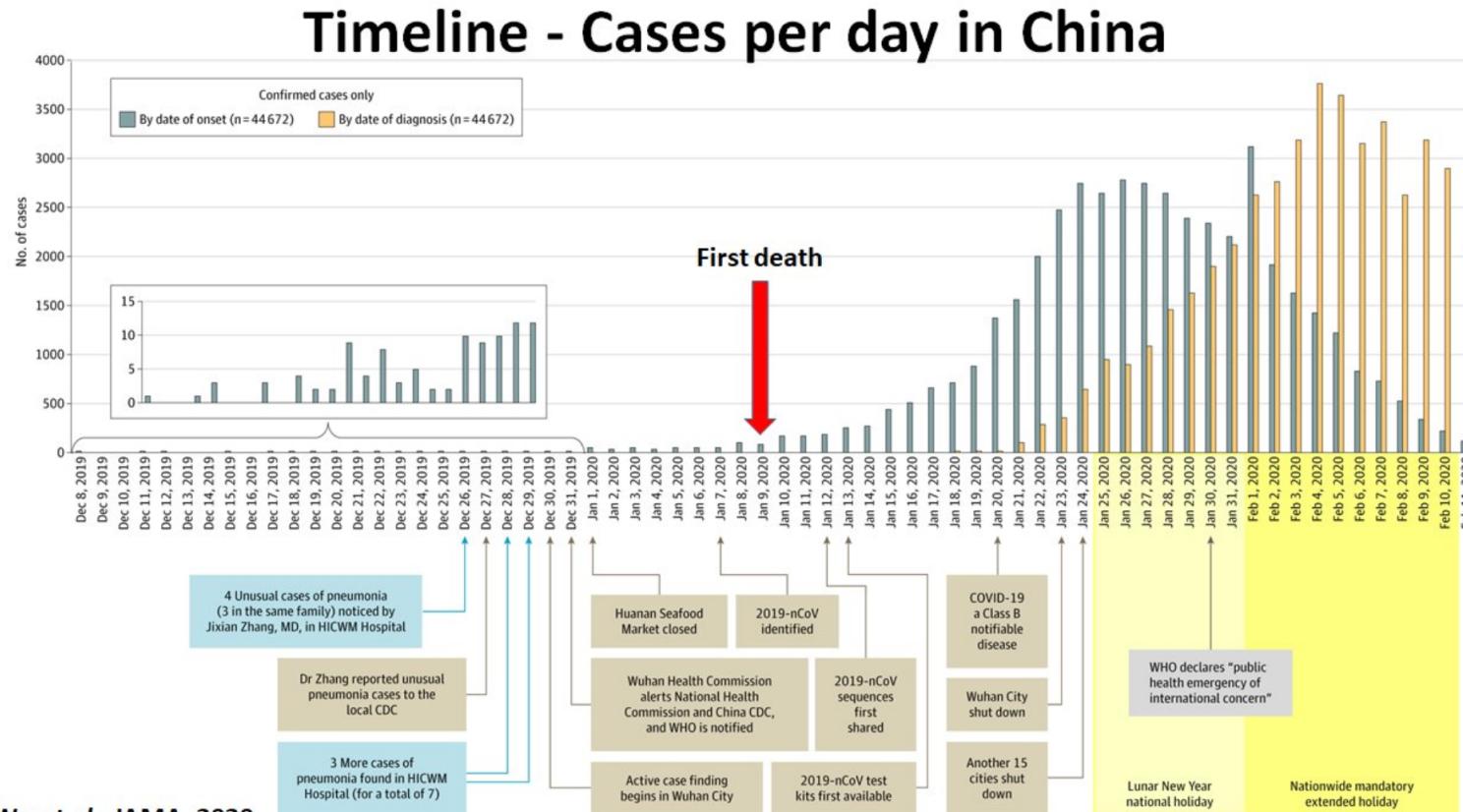
- Mortality for the Youngs very low...
- It's the flu for them—for you...
- And an extra doubling—or is it 5%?—mortality for the asthmatic
- And an extra doubling—or is it 5%?—mortality for the overweight



# What We Think Happened in Wuhan

China beat it quickly & relatively easily!

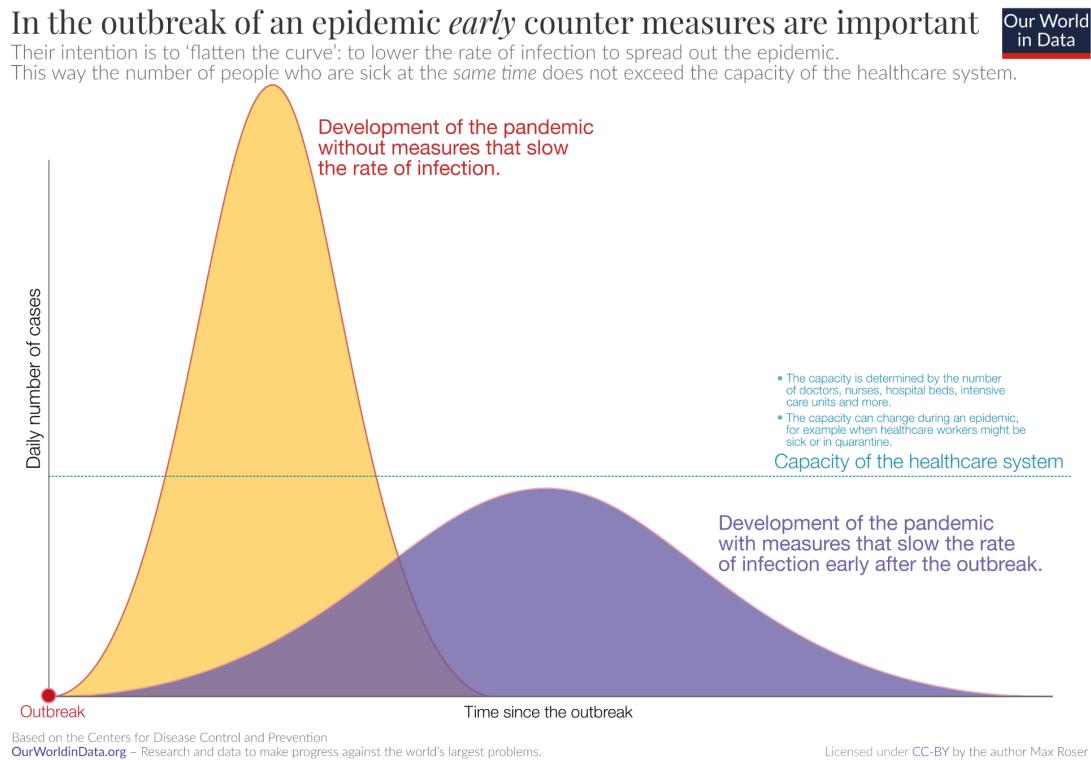
- We think
- Shut down Wuhan when 200 cases per day
- That seems to have been a good decision



# The Goal

## 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, so do it early...
  - I have no good intuition on why you want to move early
  - Plus your moving early will be wasted if you get reinfected
  - Plus the sparks you throw off making others' lives more difficult



# References

- **Financial Times** (2020): Coronavirus Tracked: The Latest Figures as the Pandemic Spreads <<https://www.ft.com/coronavirus-latest>>
- **Nick Rowe** (2020): *Relative Supply Shocks, Unobtainium, Walras' Law, and the Coronavirus* <[https://worthwhile.typepad.com/worthwhile\\_canadian\\_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html](https://worthwhile.typepad.com/worthwhile_canadian_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html)>
- **Jim Stock** (2020): *Coronavirus Data Gaps and the Policy Response* <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>

# MOAR Coronavirus!

## What I am watching:

- **Max Roser & Hannah Ritchie:** *Coronavirus Disease (COVID-19)* <<https://ourworldindata.org/coronavirus>>...
- **Worldometer:** *Coronavirus Update (Live)* <<https://www.worldometers.info/coronavirus/>>: '125,599 Cases and 4,605 Deaths from COVID-19 Virus Outbreak...'
- *FT Coronavirus Tracker* <<https://www.ft.com/content/a26fbf7e-48f8-11ea-aeb3-955839e06441>>
- Josh Marshall's COVID Twitter List <<https://twitter.com/i/lists/1233998285779632128>>
- NEJM Group: Updates on the Covid-19 Pandemic <[http://m.n.nejm.org/nl/jsp/m.jsp?c=%40kxNtXckRDOq8oG0jJvAXsIzN4mPECIPhtxoTSdTU9k%3D&cid=DM89089NEJM\\_COVID-19\\_Newsletter&bid=173498255](http://m.n.nejm.org/nl/jsp/m.jsp?c=%40kxNtXckRDOq8oG0jJvAXsIzN4mPECIPhtxoTSdTU9k%3D&cid=DM89089NEJM_COVID-19_Newsletter&bid=173498255)>: 'From the New England Journal of Medicine, NEJM Journal Watch, NEJM Catalyst, and other trusted sources...'

# Catch Our Breath...

- Ask a couple of questions?
  - Make a couple of comments?
  - Any more readings to recommend?
- 
- <<https://www.icloud.com/keynote/0YKEi7HeOrVGvKYtt9FEqH7nA>>



# Coronavirus! (March 16)

**With 31 deaths in the U.S. as of March 11, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 12 there were 3100 coronavirus cases in the United States.**

**With 87 deaths in the U.S. as of Mar 16, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 17 there were 8700 coronavirus cases in the United States**

**If it is doubling every seven days, then now about 150,000 people have and in the next week about 150,000 more people in the U.S. will catch coronavirus—which means 1/2200, currently 3500 of the 7.6 million inhabitants of San Francisco Bay. Touch a hard surface that any of those 3500 has touched in the last 48 hours, and the virus has a chance to jump to you...**

**These numbers could be five times too big. These numbers are probably not five times too small unless the thing is a lot less deadly, and there are a lot of asymptomatic cases...**

- What is wrong with this analysis?

# MOAR Coronavirus!

**As of March 21: Things are not moving in the right direction:**

- What is the  $R_0$ ?
- How can the  $R_0$  be changed?
- How will the  $R_0$  change?
- What is the asymptote share of the population?
- What is the mortality rate?

Country, Other	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases	Serious, Critical	Tot Cases/1M pop
<a href="#">China</a>	80,880	+36	3,213	+14	67,819	9,848	3,226	56.2
<a href="#">Italy</a>	27,980	+3,233	2,158	+349	2,749	23,073	1,851	462.8
<a href="#">Iran</a>	14,991	+1,053	853	+129	4,590	9,548		178.5
<a href="#">Spain</a>	9,428	+1,440	335	+41	530	8,563	272	201.6
<a href="#">S. Korea</a>	8,236	+74	75		1,137	7,024	59	160.6
<a href="#">Germany</a>	7,241	+1,428	15	+2	65	7,161	2	86.4
<a href="#">France</a>	5,423		127		12	5,284	400	83.1
<a href="#">USA</a>	4,186	+506	73	+5	73	4,040	12	12.6
<a href="#">Switzerland</a>	2,353	+136	19	+5	4	2,330		271.9
<a href="#">UK</a>	1,543	+152	55	+20	52	1,436	20	22.7
<a href="#">Netherlands</a>	1,413	+278	24	+4	2	1,387	45	82.5
<a href="#">Norway</a>	1,323	+67	3		1	1,319	27	244.0

Coronavirus Cases:

**179,836**

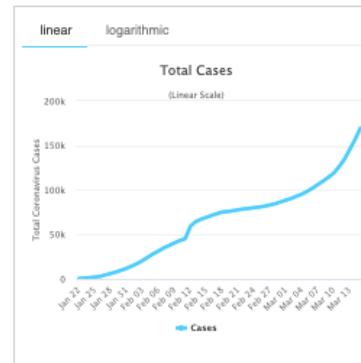
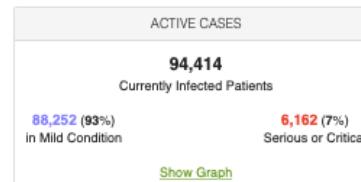
[view by country](#)

Deaths:

**7,098**

Recovered:

**78,324**



# MOAR Coronavirus!

**As of March 10: Things are not moving in the right direction:**

- What is the  $R_0$ ?
- How can the  $R_0$  be changed?
- How will the  $R_0$  change?
- What is the asymptote share of the population?
- What is the mortality rate?

Coronavirus Cases:

**125,599**

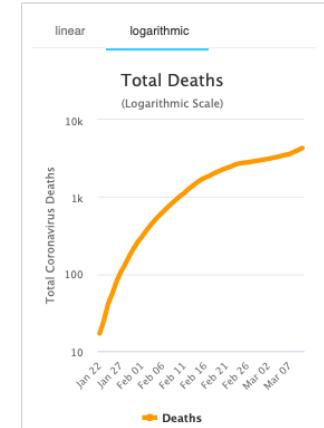
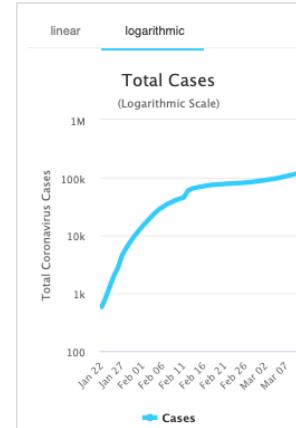
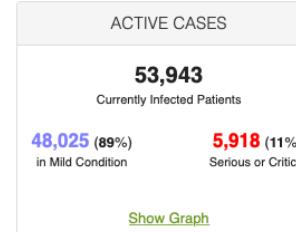
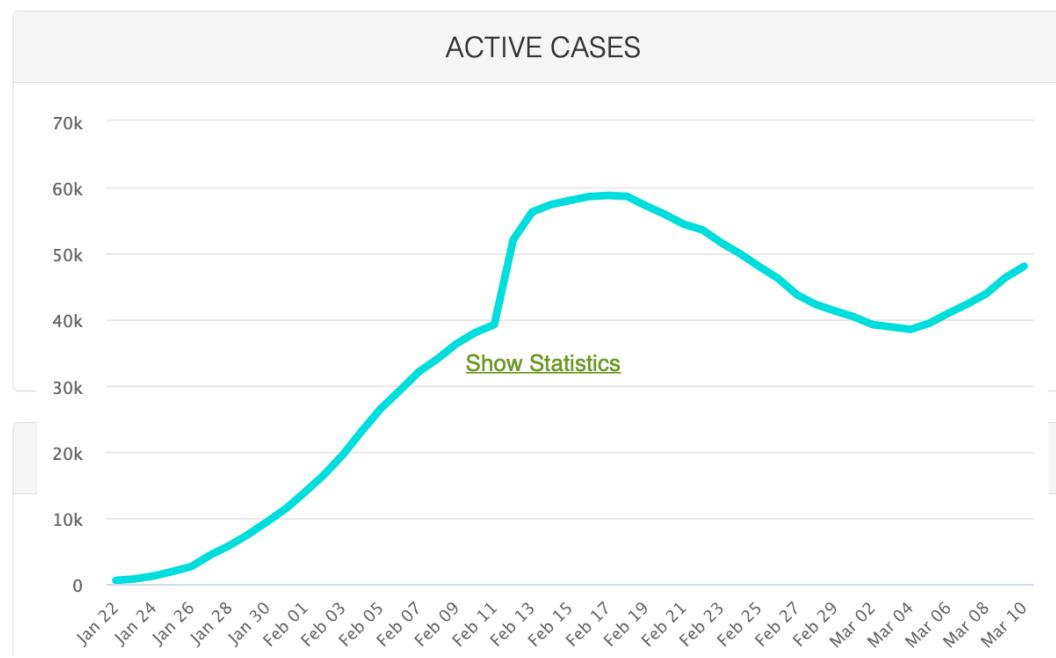
[view by country](#)

Deaths:

**4,605**

Recovered:

**67,051**



# Notes



# **U.C. Berkeley: Economics 115: Spring 2020**

# **20th Century Economic History: Lecture**

# **15: The Neoliberal Turn**

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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 Connally 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

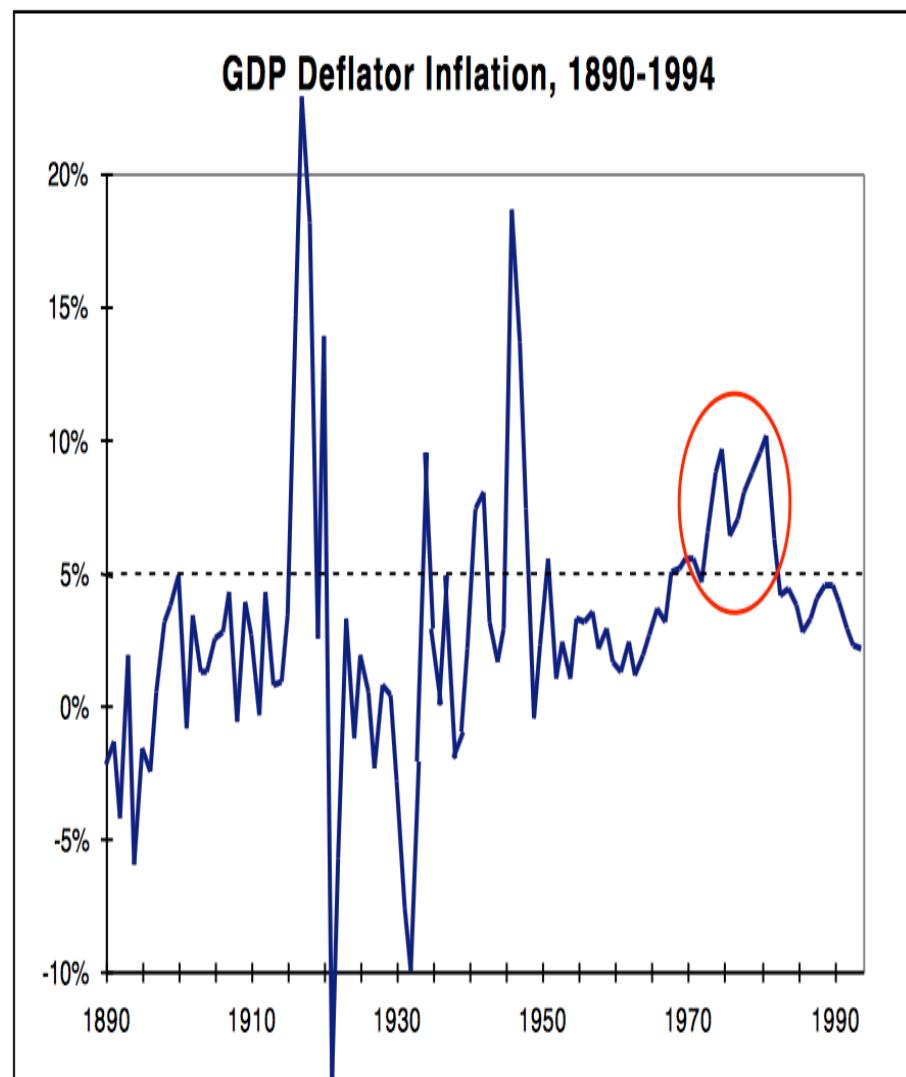
**A system that cannot produce stable prices  
cannot be working**

- 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...

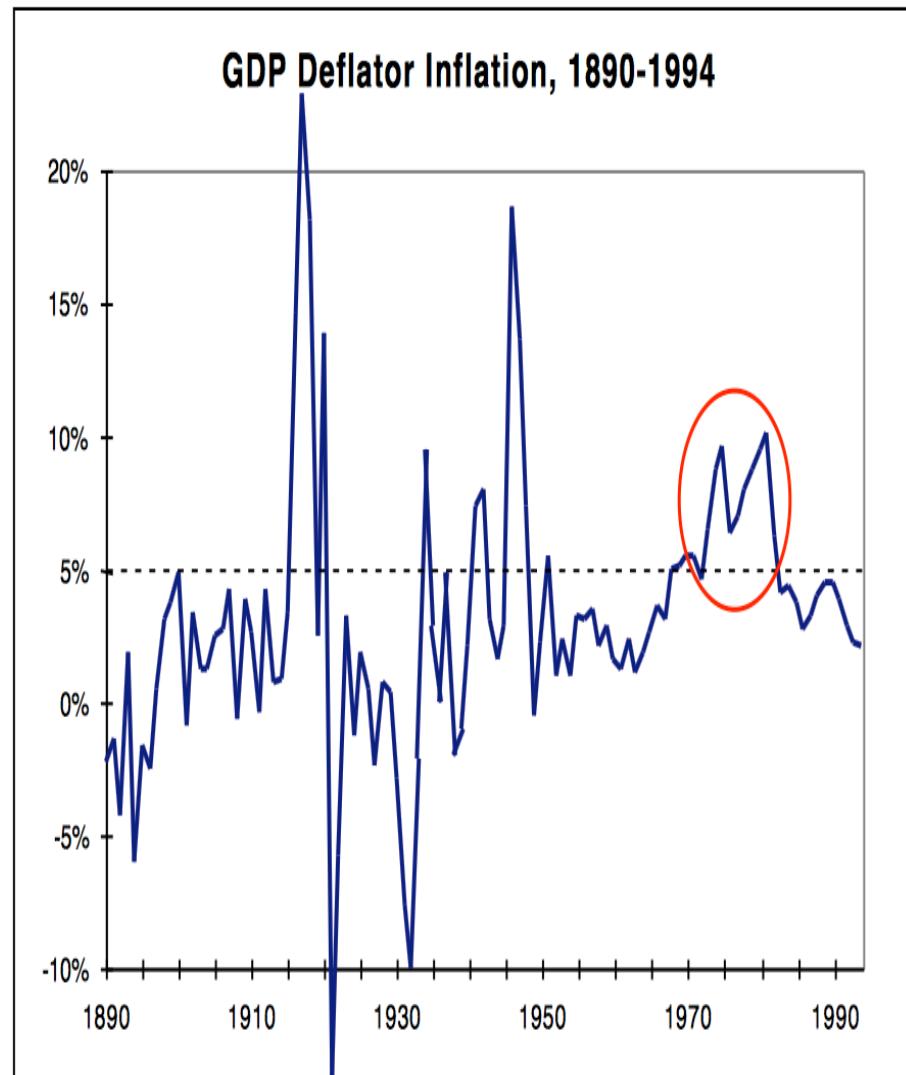
## Reagan—and Trump:

- 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

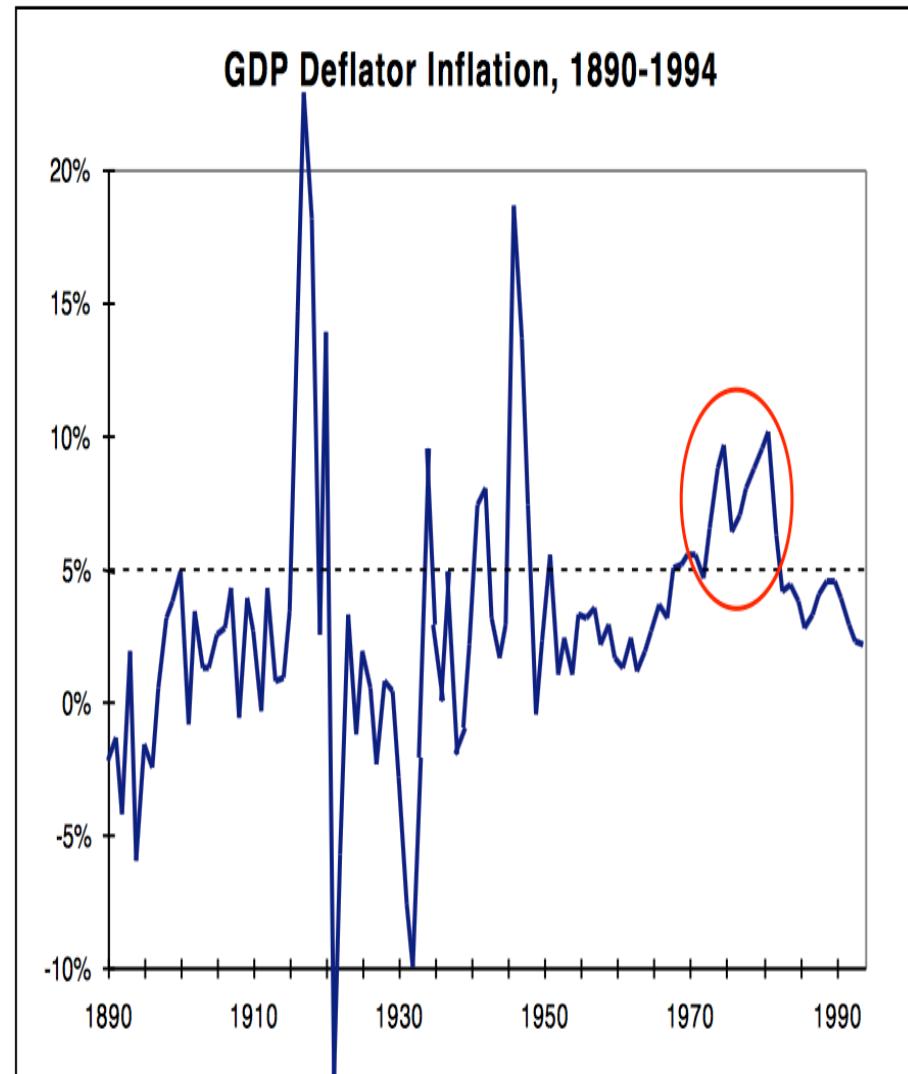
## People oblivious to reality:

- 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

## Budget 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

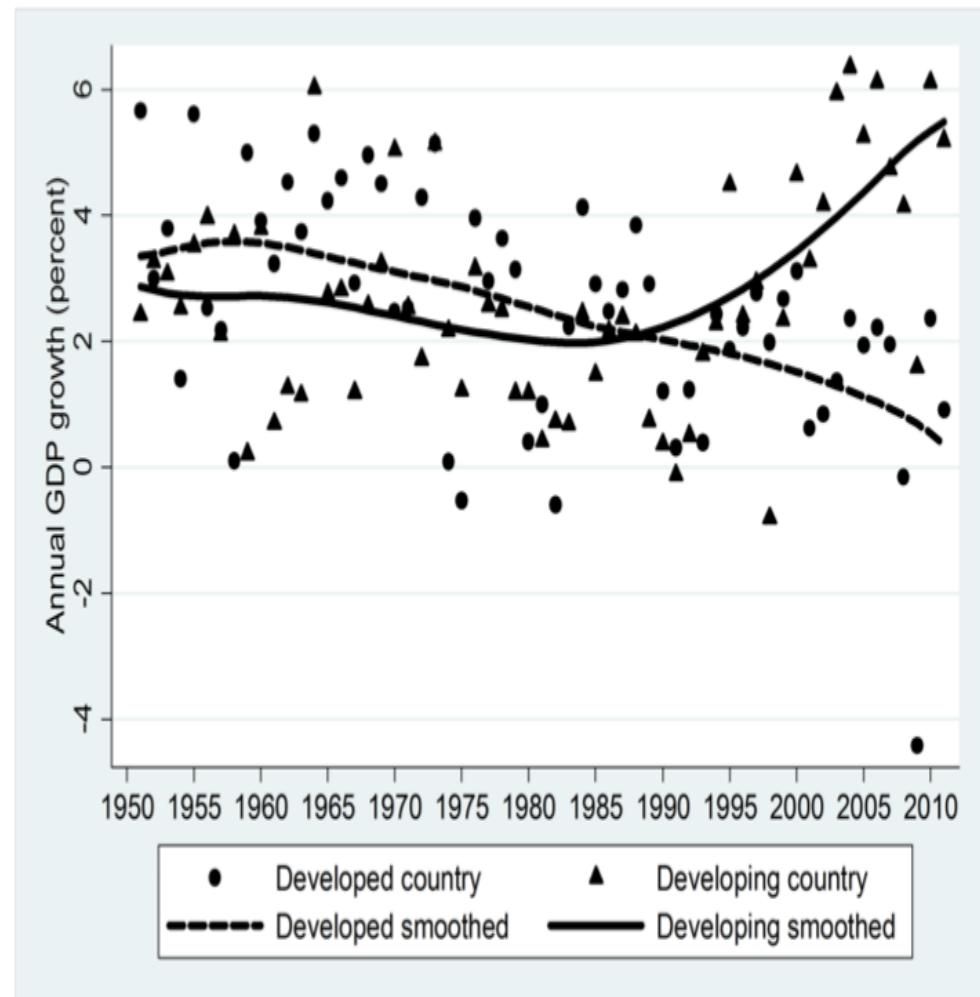
# Balance Sheet on “Neoliberalism”: Global North

**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:**

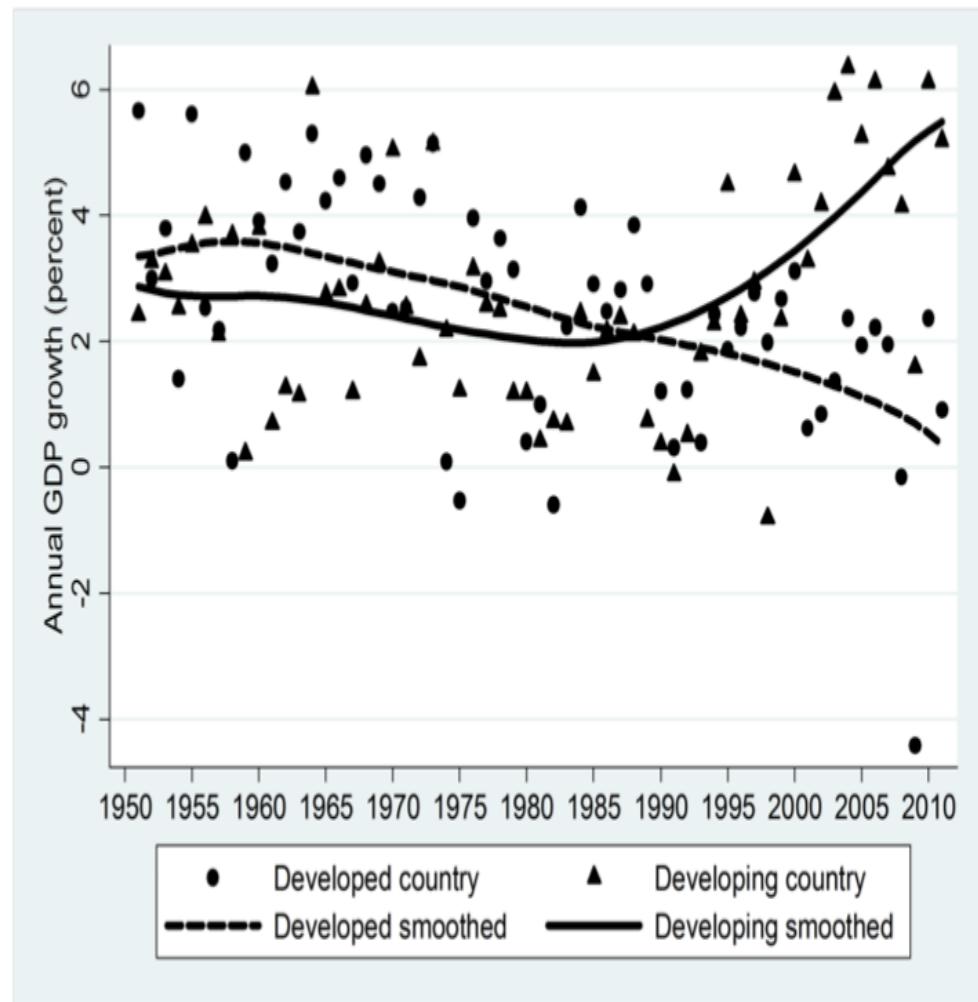
- Relax capital constraints on non-politically connected
- Diminish rent-seeking and kleptocracy
- The hope was for the creation of a regime like that of 1870-1914
  - When British (and French) capital helped massively in the industrialization and economic growth of the temperate regions of European 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

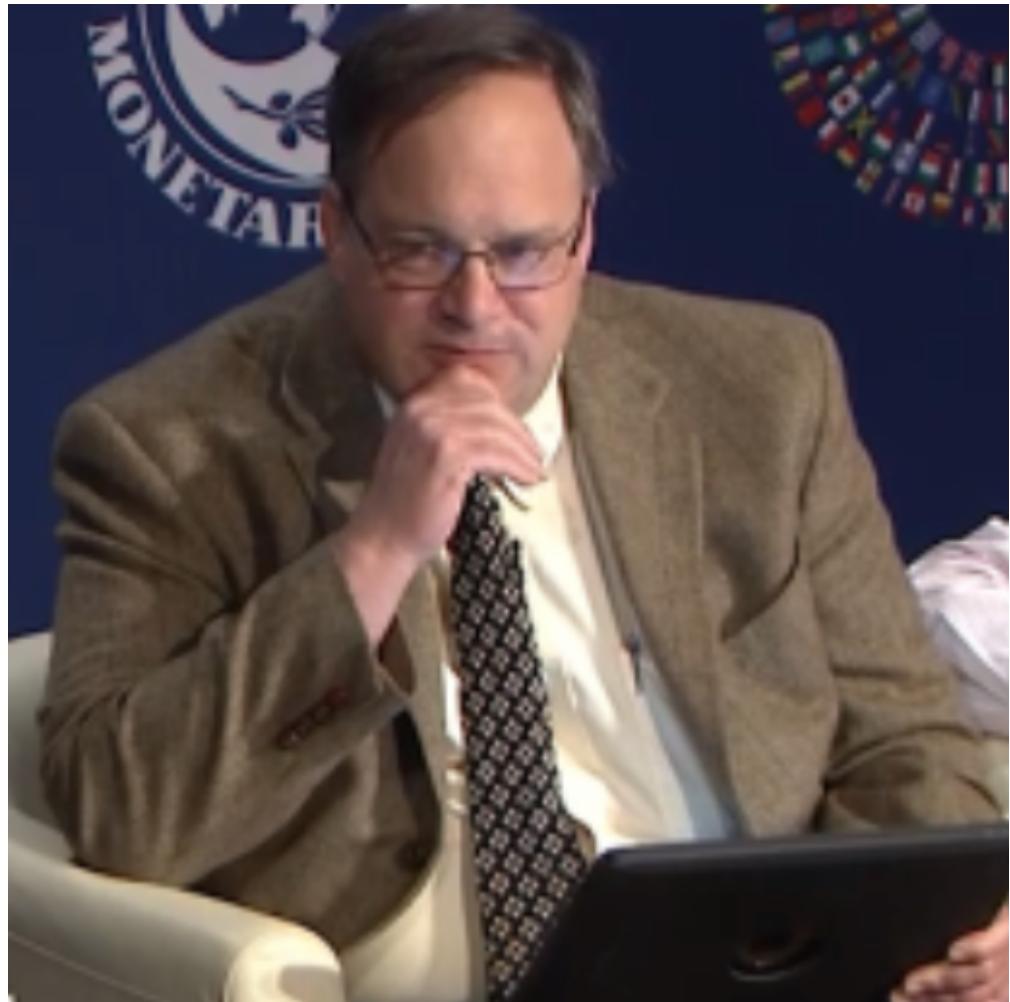
## The Neoliberal Turn

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?

