Institutionalism and Keynesian Economics

Marius Swane Wishman

Intro

- Survey > reference students
- Topics for second half

Historical context

- First half of 20th century
- Corporate power
- Trade Unions
- The State

Institutionalism

- Can be a bit difficult, less clear cut and fewer "heroes", more particularist theories/models
- Critique of the reductionism of neo-classical PE
- Evolution not Equilibrium
- Institutions and Power
- Bringing the "Political" back into "Political Economy"
- Critique of Capitalism % Reform > Revolution

Theory of the Leisure class (1899)

- Conspicuous consumption/leisure % Consumption is socially determined (taken as given in neo-classical)
- The Social process of production % Workmanship and predatory instinct, NOT PART of the theory of the leisure class!

John Kenneth Galbraith (1908-2006)

- Power
  - Condign power (coercion,punishment)(leadership)

  - Compensatory power (money)(ownership/property)

  - Conditioned power ("soft power")(oraganisation)
- Technology
  - Increasing pace -> requires planning -> growth of corporate power
  - At odds with planning and corporations
  - Planned economy for private corporate good?
- The techostructure
  - Ownership != control
  - Control of Information

  - Corporate growth > profit
- Rise of the Corporations

- Orkla group: KiMS, Nidar, OLW, Stabburet, Sætre, Pierre Robert
- Corporations operate in oligopolistic structure (AT ODDS WITH NEOCLASSICAL)
- Only small businesses approach perfect competition
- Consumer is NOT king (BECAUSE OF CORPORATE POWER)
- Corporations decide the products

- Creates needs, consumerism

Corporate Globalization

- TNC's/MNC's
  - Largest 500 70% of global trade
  - intra-corporate trade, 1/3 of trade? How do you think the market operates in these circumstances?

  - less susceptible to national market forces and governments
- Consumers and workers?
  - cheaper goods, less variety, jobs are mobile - workers are not
  - Everything is global... including economic crises
- Shifting balance of power
  - Mobile institutions > localized
- The State
  - Counterbalance

  - still limited to market failure

John Maynard Keynes (1883-1946)

- Father of modern macroeconomics

The Great Depression

- Crisis of demand
- Wages are not flexible - But, that is not the problem!
- Vicious Cycle
  - Wages down -> demand down -> more people unemployed -> demand further down -> even more people unemployed -> NO Equilibrium!

Keynes' solution

- Y=C+I+G+X-M
- Step 1: Be the state
- Step 2: Increase aggregate demand % (Un)Employment is key
  - Increase Spending % Fiscal policy
  - Cut taxes (less inflationary, but...) % Dynamic effects
  - The multiplier effect
- Inflation
  - Increases in fiscal policy leads to inflation, if employment is high you should limit inflation (countercyclical)
- Monetary policy
  - increase money supply -> interest rates down -> demand up (but usually controlled by central bank)