

Institutionalism and Keynesian Economics

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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”)(organisation)
- Technology
 - Increasing pace -> requires planning -> growth of corporate power
 - At odds with planning and corporations
 - Planned economy for private corporate good?
- The techstructure
 - 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)

Pre-Keynesians?

- FDR's New deal

- Stalin
- Hitler

Discussion

- What would a neo-classical analysis of the Great Depression look like?
 - Unemployment -> wages dropping -> profits rising -> employers hire more workers -> unemployment is eliminated
 - Unemployment as self-prescribed.
 - Stay out!
 - Bust unions if necessary!