Institutionalism

Historical context

- First half of 20th century

- Corporate power

- Trade Unions

- The State

What is Institutional Economics **% 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**

Thorstein Veblen 1857-1929

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**
* Ownership $\neq$ control **% - Control of Information - Corporate growth > profit**
* Rise of the Corporate manager **% - 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

\includegraphics[width=\textwidth]{img/value.png} % **Comparing Apples and ... States**

* 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 susceptable 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**

Keynesian Economics

John Maynard Keynes (1883-1946)

* A Treatise on Money (1930)
* The General Theory of Employment, Interest and Money (1936)
* The Great Crash (and subsequent Depression)

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's Solution

- $Y=C+I+G+X-M$ **% Seminar stuff. National income, consumption, investment, government expenditure, exports/imports**

- 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 **% Gov. spends 10$ on you, you save some, but NOT ALL**

- 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
* "The true protagonist of the Keynesian ideas." - Galbraith (1977)

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!**