====================

\*Broad and Shallow Knowledge for Intellectual Conversations\*

Vol 1. [Reality] Part 2. [Economics] Chapter 6.

> \*\*[Late capitalism]\*\* - Government intervention is needed

Also called Modified capitalism, it is proposed by an English economist John Maynard Keynes in 20C.† He pointed out believing early capitalism has self-correcting tendency is faulty, and proposed government should actively intervene to solve market’s shortcomings. By redistributing wealth through taxes, monopolizing must be stopped and boost consumptions.

```

(2) Late capitalism

(great depression) "Government > Market"

Adam Smith 🛌(ded) Keynes 🧍‍♂️ /

```

† Explained as such in this book. Technically it's called Keynesian economics.

Let’s return to the coffee shop example. A, B, and C were all selling coffee, but A lowered the price with his capital strength and monopolized the market. C(You) couldn’t catch up A’s price, nor quit the business. You already took massive loans for this. So you had to cut the wage expense. This happened across the country and brought an economic downturn, lowering demand. People cut their dining costs first – especially desserts – so they didn’t go to cafés. They bought instant coffees.

C spent all day eating his coffee beans. Then one day, he saw a notice saying government is looking for workers for public works. They’re building a thermoelectric power plant in the next town. C considered applying but gave up. His body was frail ever since he was young, wasn’t sure he could wake up early when he was already used to waking up late running a café, and he’ll get a tan on his face. He didn’t like that. He had plenty of coffee beans, so he chose to endure few more days.

But after the start of the construction, the situation dramatically changed. People started visiting his shop, and after few days he couldn’t keep up with the orders. This was same for A and B. Now that workers have money from the construction, they started looking for a cup of coffee after meal. All commercial areas near the town building the powerplant boomed. To keep up with the order, C assigned part timers again and raised the coffee price. Demand was high so raising it wasn’t a big deal. Profit skyrocketed. He wished it was like this all the time.

But it was not all good news. Government suddenly raised taxes. It didn’t feel all that great, but it turned out to be favorable. A paid massive tax because of the progressive tax policy and raised his price of coffee. The gap is still there but it got smaller, so he was content.

Like this, government actively intervenes the market and solves its shortcomings. First, they create jobs for public works and pay workers so they can spend, then collect taxes to increase their finance, and recycle them as public work funds creating a virtuous cycle. It redistributes wealth, decrease income gaps, and increase government finances. Great depression caused by market failure slowly stabilized with active government intervention. This is the look of late capitalism. Not only it seeks development, but it also raises the quality of society, improves workplaces, and look out for underprivileged. A humane capitalism era has arrived.

This humane capitalism started with the Great Depression, through the Cold War, and ended before the fall of the Soviet Union. Because of it, US could protect capitalism from the system competition. Because Communism valued worker’s rights the most, it put a huge pressure on US. For US workers Communism must’ve been attractive, and for US capitalists Communism must’ve looked like a demon threatening their properties and lives. So, US capitalists couldn’t ignore the workers and underprivileged people. There was one way to keep them happy: keep them fed and comfortable. So, capitalism in this period had to maintain the late capitalism look, which looks out for workers and underprivileged people. Rise of late capitalism goes along with the history’s flow.

Then is late capitalism a good economic system we have found? Not entirely. It has its own set of problems as well. First is economic depression and stagnation, and second is stagflation in which inflation happens along recession. Let’s take an example.

C was able to keep selling coffee with the construction of powerplant. To keep up with demands he expanded his shop, hired 3 full-time baristas (and of course more part-timers.) If demand continues as it is now, he might make all his money back he used for investment costs. But shortly after, an unexpected problem occurred. There was an accident at the powerplant construction site, and while the government conducts safety inspections construction in this area has halted.

No one could predict when it will resume. As the construction has stopped, the number of workers decreased. It was an unexpected problem. He couldn’t predict this unexpected situation and expanded his investments. There weren’t enough sales to withhold his big shop. C had to reduce its size. There are two ways. Move back to smaller shop, or reduce the number of employees and cut the wage expenses. Former has investment loss and moving cost problems. And no one knows when the construction will resume and need this big café back. The most reasonable choice for C is to reduce staffs. He can hire them back when the demand grows, so thought it was the most flexible solution in unexpected situations. So C fired few part-timers, and cut wages for others.

But there was a problem. Late capitalism society he lives in is a society with active government intervention, so there were few regulations. One of them is minimum wage laws. So he could fire people all he wants, but not lower their pay. So instead of cutting their wage, he fired few more part-timers. Next up, baristas. He wanted to fire one among three. But there was another problem. They united. This society he’s living in allows workers union to ensure their rights. The baristas told him if they fire one of them, they will all quit and go to A and B. Unlike part-timers they’re professionals, so it wasn’t easy to hire a new one. So C proposed that he will keep all three of them but instead cut their pay. But they refused it too. They said it’s unfair that he wants them to bear the burden now when he didn’t even raise their payment when the business was going well. C obliged and kept all three baristas. Then how does he recover the loss? C had to raise the price of his coffee. This didn’t happen only to C. A and B also couldn’t downsize their cafés because of the union and raised their price. No consumers, yet the price rose. A, B, and C’s town is now on the road of long-term economic recession.

```

Inflation = Boom → increase in prices

Stagflation = Crash → increase in prices

```

No demand yet rise in prices. In other words, receding economy yet inflating prices. It’s called stagflation. There is a big difference between the characteristic of our previous capitalism and this absurd situation. It was an oversupply issue, and creating demand was the problem. To create demands, markets had to be pioneered or prices had to be lowered. Prices had to be lowered to achieve competitiveness, and the market could be normalized with rise in demands. If so, this situation is abnormal. What did C do? Demand decreased yet he raised the coffee price. Why did this happen? Government failed at running public work safely with finance expenses, and overly intervened the market to protect worker’s rights and interests. C had to adapt to rapid changes in the market but couldn’t with government regulations. In the end, situation of the market got abnormally twisted, and as a result brought depression in the whole society.

Humane late capitalism, which showed up with criticizing early capitalism, brought economic recession and stagnation due to government’s excessive intervention forming inflexible labor markets. It’s called \*Government failure\*. Then what do we do now? Having government intervention is a problem as it was in early capitalism, not having government intervention is also a problem as it was in late capitalism. In this situation when it became early 1990s, Soviet Union collapsed where extreme government intervention is symbolic. We’ll talk about it later, but communism is a system asserting strong government intervention called planned economy of the government. Witnessing the fall of this system, and problems of late capitalism, people thought maybe it is better to not have interventions and go back to early capitalism. Like this, system in which criticizes government failure and insists returning to early capitalism is neoliberalism.

====================