

Econ 115: November 12, 2009: The Forward March of Social Democracy Halted?

J. Bradford DeLong
Professor of Economics, U.C. Berkeley
Research Associate, NBER

Administrivia

I need the 19th as a lecture day—I may need the 8th as well...

Bitter experience has taught me that afternoon lectures on the Tuesday before Thanksgiving never work—so the 24th is out...

Hence: no midterm on the 19th...

Hence: replacement assignment—in all ways—for the midterm: Due Friday December 11, 5 PM: 2500 words. Take one of your short papers for this course—I hope the one you liked most—and expand it and its argument to about 2500 words...

Party: As I said, I have collected \$500 this semester in Amazon fees for books, and it seems appropriate to give this back. Therefore Tuesday December 1 at 2 PM, after lecture, we are going to have an Econ 115 reception outside the classroom—either in the Bank of America Forum inside, or outside in the courtyard, depending...

**IClicker: The author of the forward to
Quotations from Chairman Mao was:**

A) Deng Xiaoping

B) Jiang Jieshi

C) Lin Biao

D) Sun Yatsen

E) Ho Chi Minh

Convergence and Divergence

- From 1945-1980: convergence:
 - Tremendous growth in the North Atlantic core...
 - Japan joins the core: (South) Korea, Taiwan, Singapore, Taiwan, southern Europe, and possibly Thailand are on the way...
- From 1945-1980: divergence:
 - Elsewhere no signs of net convergence...
 - Half of retardation due to a number of factors:
 - Developmental advantages of backwardness, but...
 - Demographic burden of the population explosion, and...
 - Poor countries have relative price structures hostile to savings, which were...
 - Amplified by government policies:
 - The cost of trade restrictions...
 - The cost of state building...
 - Corruption: local bandits, local notables, state functionaries...
 - A profound failure of collective action...
 - A near-run failure? Examples of southern Europe, East Asia...
 - Half of retardation due to communism:
 - And the human cost of the terrors and famines and terror-famines...
 - And the restrictions on individual freedom...

IClicker: Which of the following is *not* a quotation from Chairman Mao?

- A) A revolution is not a dinner party.... A revolution is an insurrection, an act of violence by which one class overthrows another...
- B) I have witnessed the tremendous energy of the masses. On this foundation it is possible to accomplish any task whatsoever...
- C) What is important is not whether the cat is red or white. What is important is whether the cat catches mice...
- D) When the enemy advances, withdraw; when he stops, harass; when he tires, strike; when he retreats, pursue...
- E) Once class struggle is grasped, miracles are possible...

Social Democracy Exhausted...

A growing view that in the developing world not only is communism poisonous, but even state-led development is ineffective...

“Nothing worse than state-led development led by an anti-developmental state...”

Hence the task at the periphery: shrink the state back to its core functions...

And in the core: the coming of Ronald Reagan and Margaret Thatcher: “labor isn’t working...”; “I’m from the government, and I’m here to help you...”

Yet this right-wing movement to roll back social democracy came after decades of the fastest growth ever anywhere in Europe, and of the fastest growth ever in America—remarkably equal growth as well...

Why was social democracy seen as exhausted in 1980? Why did Reagan and Thatcher win—and then shape the world?

As Governor of California, Ronald Reagan...

- A) Slashed tax rates and state government spending...**
- B) Kept tax rates the same, but slashed state government spending to generate a large surplus and pay down the debt...**
- C) Kept tax rates the same, and spent every extra penny that economic growth delivered to the states...**
- D) Raised tax rates, and spent every extra penny raised...**
- E) Raised tax rates, and ran a huge surplus to pay down the debt...**

Two Explanations: Time and Chance, and “Structural” Disabilities...

Time and Chance: Thatcher: Business cycle and inflation; Labor Party split; Falklands War with Argentina...

Time and Chance: Carter: Business cycle and inflation; Iran; “Reagan Democrats” of Michigan—Johnson backlash...

Structural Disabilities: Arthur Burns’s 1959 presidential address to the American Economic Association...

Trust in big government rested on its ability to deliver full employment and balanced growth with low inflation...

And it was plain by 1980 that it could not do so: inflation expectations, oil shocks, failure of “jawboning” to control prices, productivity slowdowns...

“Eurosclerosis” and “Amerosclerosis”...

Not Just on the Federal Level...

California: “The revolt of the haves...”

Inflation, house price appreciation, and property taxes...

Proposition 13...

Serrano vs. Priest...

Supermajorities for budget...

Initiative process...

The “Reagan Revolution”

The Republican problem in 1980: Medicare, Social Security, unemployment insurance, national parks—even Medicaid—are very popular...

The Republican problem in 1980: greatly expanded defense spending is seen to be necessary...

Low tax vs. balanced budget Republicans...

The Education of David Stockman: “weak claims and weak claimants.” William Greider...

Drag on national savings and investment: $4\% \times (7\% + 3\% + 5\%) = 0.6\%/year...$

Upward leap in income and wealth inequality...

America returning to the center of its voting electorate? Democrats vs. Republicans 1890-1990; Dean Acheson; Bruce Bartlett; committee chairs in the 1950s and in the 1970s...

The End of Japanese Exceptionalism

- The Bubble
- The Crash
- The Liquidity Trap
- The Stagnation
- “Fifth Generation” and the end of catch-up growth
- Toyota, Sony, etc...
- The Four Dragons...
- Getting prices better than right
- How to avoid the defects of statism?

