

Econ 115: November 17, 2009: Neoliberalism and Neocolonialism Triumphant?

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Administrivia

I need the 19th as a lecture day—but “systemwide strike”?...

- **Basic category mistake...**
- **Purpose of strike: deprive bosses of profits (not to hurt workers—that is collateral damage—not to hurt consumers—competitors—ideally accompanied by boycott; alternatives of boycott alone and work-to-rule)...**
- **Give the decision making principal an incentive to act otherwise...**
- **Decision-making principals: regents, legislators...**
- **How does this give them an incentive to act otherwise?...**

So I'm going to turn the 19th into a teach-in on California public finances...

Which, curiously enough, was going to be the topic of today's lecture: social democracy exhausted, or social democracy in its discontents...

That means that today's lecture is the Thursday lecture—neoliberalism and decommunization...

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?

IClicker: State-Led Development in Japan Succeeded Because...:

A) Bureaucrats can direct businesses to follow paths laid out by earlier developers, even though they cannot replace entrepreneurs in leading-edge explorations of technology...

B) Bureaucrats who have a “Confucian” cultural tradition are much more public-spirited than bureaucrats without...

C) Bureaucrats in a country with an equal income distribution have a much lower chance of becoming corrupt tools of the rich...

D) Any country with guaranteed tariff-free access to the U.S. could grow fast after 1945...

E) Bureaucrats who subsidized successful exporters were imitating the market—were in fact doing better than the market because they were tilting relative price structures/firm survival probabilities in a manner that accorded with externalities...

State-Led Development Elsewhere

- Outside of Southern Europe and East Asia (and Botswana, and Mauritius, and for a while Cote d'Ivoire, and Costa Rica) a failure...
- Not an absolute failure, but a relative failure: “Hindu rate of growth”...
- Corruption, “populism,” inefficiency—Zambia
- The neoliberal bet: shrink the state...
- The neoliberal bet: we don't know how technology transfer happens, but maximizing contact is a good way...
- The neoliberal bet: export earnings are a good way to fund the purchase of core-made capital goods that embody technology; capital mobility as well...
- Neoliberalism reacting against Prebisch-Singer...

Decommunization

- **Leaders:**
 - **Lenin**
 - **Stalin**
 - **Khrushchev**
 - **Brezhnev**
 - **Andropov**
 - **Chernenko**
 - **Gorbachev**
- **“Would it not be better to dissolve the people, and elect another?”**
- **The Russian road...**
 - **Mechanized agriculture**
 - **Monopoly firms**
 - **Nomenklatura privatization**
- **The Chinese road...**
 - **Start with decollectivization...**
 - **Special economic zones: “the mountains are high, and the emperor is far...”**

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...

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”...

“Fairness” — the deregulation movement

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...

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...