

Session 11

If Keynesianism Was So Good, Why Did It Lose Its Place to Neoliberalism?

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OVERVIEW

Lecture Roadmap



The Keynesian Revolution (1936)

Origins in the Great Depression; Keynes's *General Theory* and its core ideas



The Golden Age (1945–1973)

Post-war dominance, full employment, and the achievements of demand management



The Crisis: Stagflation (1970s)

Oil shocks, the Phillips Curve breakdown, and Keynesianism's apparent failure



The Neoliberal Turn (Late 1970s–1980s)

Friedman's monetarism, Thatcher, Reagan, and the intellectual/political shift



Was the Fall Inevitable?

Critical assessment: internal contradictions, political economy, and alternative readings



References: Keynes (1936); Friedman (1968); Wikipedia – *Post-war displacement of Keynesianism*; IMF Finance & Development (2014); WEF (2025)

The Keynesian Revolution

Born Out of Crisis (1936)

John Maynard Keynes published *The General Theory of Employment, Interest and Money* in 1936, overturning classical economic orthodoxy.

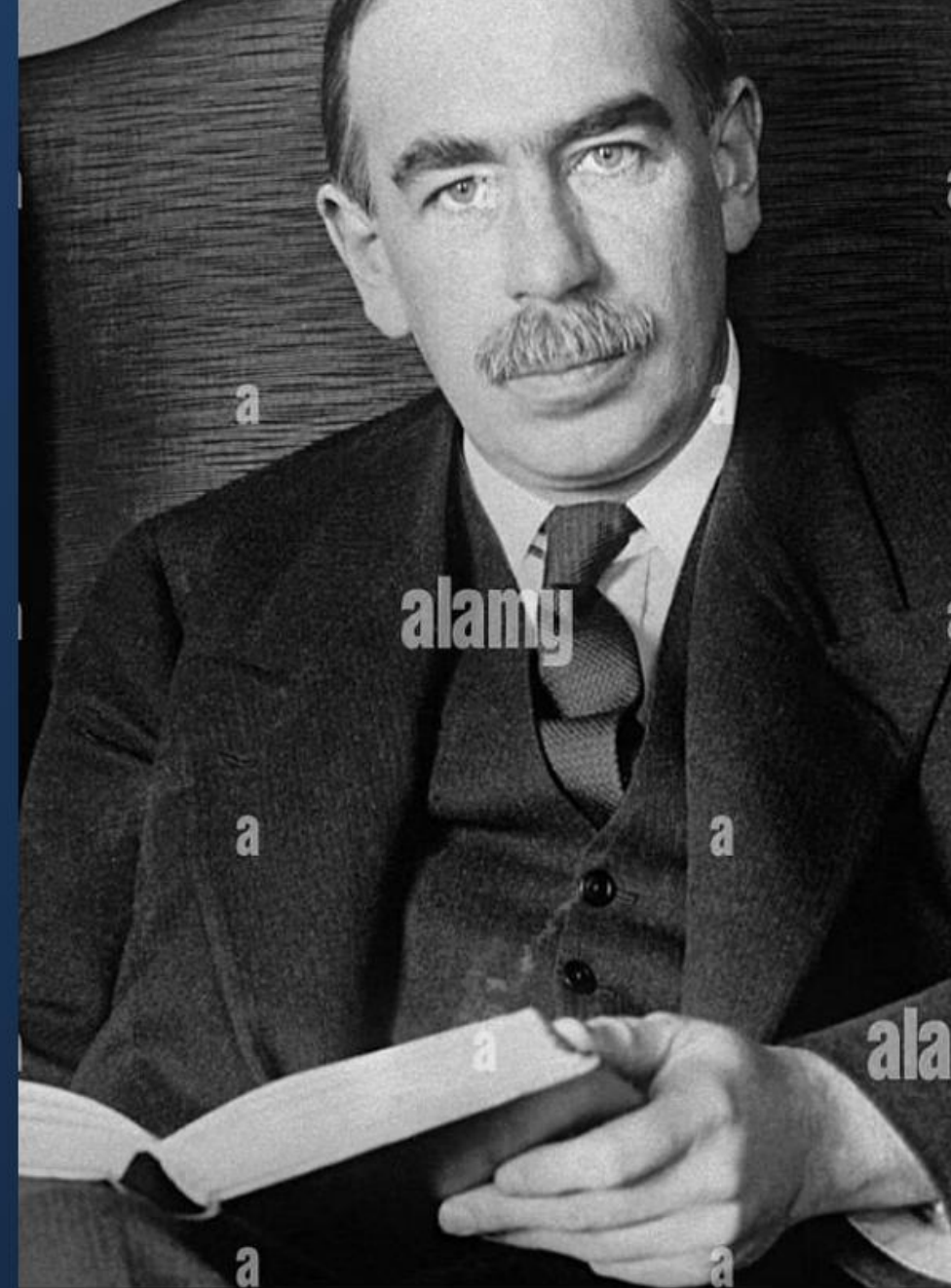
Core Argument

Output and employment depend on aggregate demand, not just supply. Markets do not automatically return to full employment.

Policy Prescription

Governments should use fiscal and monetary policy to stabilize demand, especially in recessions.

Sources: Keynes, J.M. (1936). *The General Theory of Employment, Interest and Money*. IMF Finance & Development (2014). Wikipedia – Keynesian Economics.





PART 2

The Golden Age of Capitalism

1945–1973: "We Are All Keynesians Now"

Time magazine quoted Milton Friedman in late 1965: "We are all Keynesians now" — echoed by President Nixon.

~1951

1973

38

Golden Age Start

Golden Age End

Financial Crises

Post-war boom begins

Oil crisis ends the era

1945–1971

The Crisis: Stagflation in the 1970s

The Event That "Killed" Keynesianism

Stagflation combined high inflation with high unemployment, breaking the Keynesian Phillips Curve.

The 1973 OPEC Oil Shock

Oil prices surged and pushed inflation higher.

The Phillips Curve Fails

Keynesian policy had no good answer for inflation plus unemployment.

Inflation in the 1970s

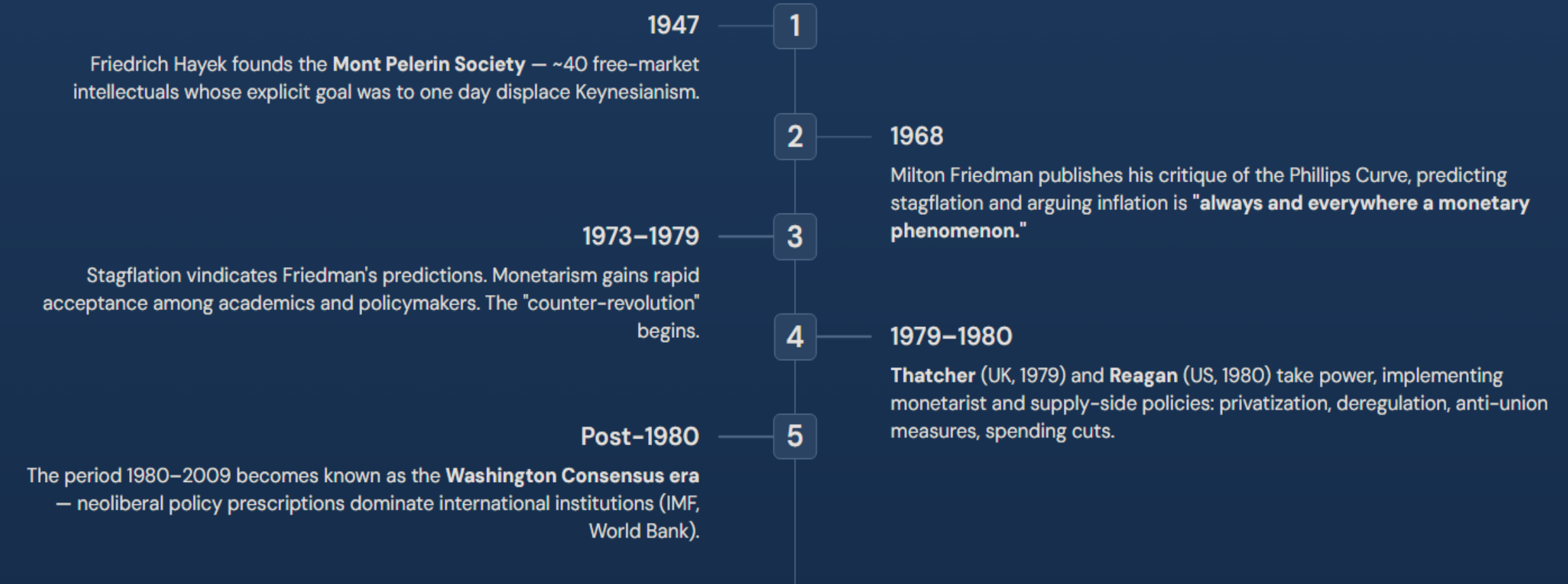
Annual inflation rose sharply:

- **UK:** 6.4% → 18%
- **US:** under 6% → 13.5%
- **France:** ~5% → over 13%

Keynesian policy struggled to respond.

The Intellectual & Political Counter-Revolution

How Neoliberalism Seized the Moment



The displacement of Keynesianism operated on **three fronts simultaneously**: in the academic world, in politics, and in the wider sphere of business opinion and media. Efforts had been underway for decades before the 1970s crisis provided the decisive opportunity.

What Is Neoliberalism?

Core Principles, Policies & Figures

Neoliberalism is a market-first political and economic approach that argues governments should play a smaller role in the economy. It became influential in the late 20th century as a challenge to Keynesian ideas.

Free Markets

Markets are treated as the best way to allocate resources, with competition and price signals guiding economic decisions.

Privatization

Public services and state-owned industries are transferred to private ownership to increase efficiency and reduce state control.

Deregulation

Rules on business, finance, and industry are reduced to encourage investment, competition, and flexibility.

Austerity

Government spending is constrained, with cuts to public services and welfare used to limit the role of the state.

Main figures: Milton Friedman and Friedrich Hayek helped shape neoliberal ideas, while **Margaret Thatcher** in the UK and **Ronald Reagan** in the US turned them into government policy.

Sources: Friedman, M. & Schwartz, A. (1963). Hayek, F.A. (1944). Overview of neoliberal policy in the Thatcher and Reagan era.

Key Takeaways

→ **Keynesianism worked — until it met a problem it wasn't designed for**

The Golden Age (1945–1973) was a genuine success.

Stagflation was a supply-side crisis that exposed

Keynesianism's limits, but arguably not a refutation of its core logic.

→ **The neoliberal turn was as much political as intellectual**

Decades of organized intellectual opposition (Mont Pelerin), class interests, and the political moment of

Thatcher/Reagan combined to make the transition happen.

→ **The debate is not closed**

The 2008 financial crisis triggered a Keynesian resurgence. As Robert Lucas noted: "**Everyone is a Keynesian in a foxhole.**" The WEF (2025) warns stagflation risks are rising again today.