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# A brief history of modern political economics

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## Major Theorists

### **Classical Economists** (ideology, philosophy and history)

- Adam Smith (1723-1790) (Liberal. The Invisible Hand)
- David Ricardo (1772-1823) (Anti-economic rent)
- Karl Marx (1818-1883) (Class struggle and exploitation)

## Major Theorists

**Neoclassical Economists** ('pure' science and mathematics). Most textbooks today are 'Neoclassical'. Mostly 'micro' rather than 'macro'.

Alfred Marshall (1842-1924) (copy the science of Biology.  
Economics involves evolution)

Léon Walras (1834-1910) (copy the science of Physics.  
Explain the economy with fixed laws)

Joseph Schumpeter (1883-1950) (Creative destruction)

Friedrich Hayek (1899-1992) (liberal). Minimum government  
intervention

## Major Theorists

### The Cambridge School – Welfare Economics

**Keynesian Economists** (Mathematisation isn't useful. Take a 'macro' vision. Full employment. The rôle of the government (Interest Rate, Money Supply, Fiscal Control) to intervene to soften capital crises.

'Big' government (high Tax Burden)

Public companies for essential services – power, communication, transport etc.

Protectionism – sometimes sectorial

Welfare – acces to education, health and housing

John Maynard Keynes (1883-1946) (socialist)

A. C. Pigou (1877-1959) Tax negative externalities.

## Major Theorists

### **Post-Keynesian Neoliberal Economists**

Friedrich Hayek (1899-1992) (liberal). The market takes care of itself (Adam Smith), not the government. Followed by Reagan and Thatcher from the late 1970s

Milton Friedman (1912-2006) (neoliberal). The application of Hayek's ideology. Free-market capitalism. Monetarism. Leader of the Chicago School of economics. Intervention in South America (Chile, Argentina, Brazil etc.)

## History

Industrial revolution (UK – 1760-1840)

Post World War II

US intervention in S. America and Latin America

The birth of Neo-liberalism (1950-1980)

Modern Neoliberalism (1980-2015)

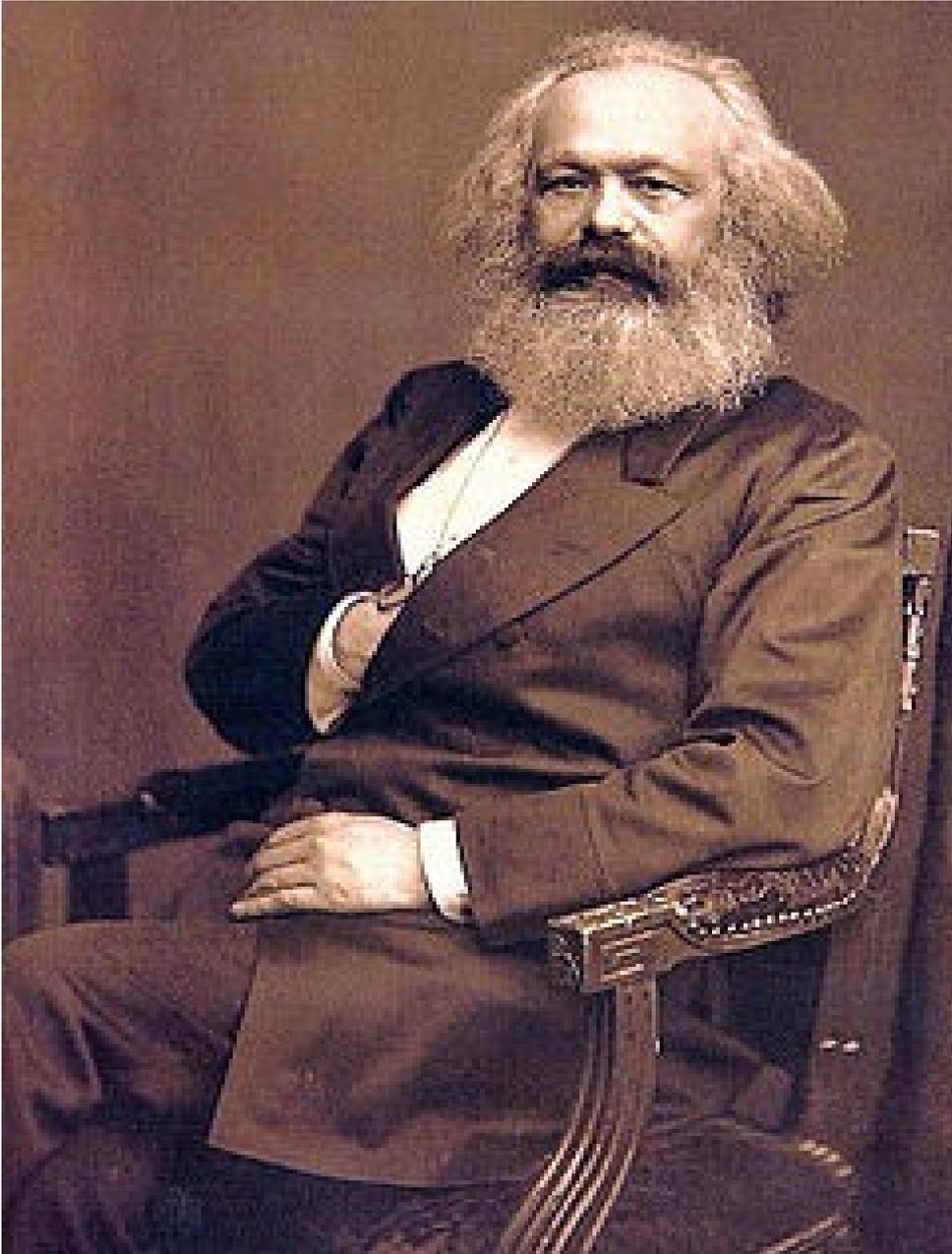




David Ricardo. 1772-1823.

- Competition does not always convert economic rents into more investment in machinery (capital). Economic rents (land, housing etc.) are not a reward from entrepreneurship, but by the inheritance of productive resources. These people can enjoy their rents without having to invest. This is ignored by Adam Smith.

## Karl Marx. 1818-1883



Human society progresses through class struggle – the conflict of the working classes (proletariat) and the owners of capital (bourgeoisie).

Democratic change is difficult since government is controlled by the bourgeoisie and protects their interests. He proposed revolutionary action by the proletariat.

He was appalled by the conditions of labour during the Industrial Revolution that he witnessed when living in England.

Hayek was a major social theorist and political philosopher of the 20thC. His account of how changing prices (via supply and demand) communicate information which enables individuals to co-ordinate their plans, is widely regarded as an important achievement in economics.

He had a strong influence on the economist Milton Friedman and the politicians Margaret Thatcher and Ronald Reagan who would instigate modern neoliberalism in the 1980s

Friedrich Hayek. 1899-1992



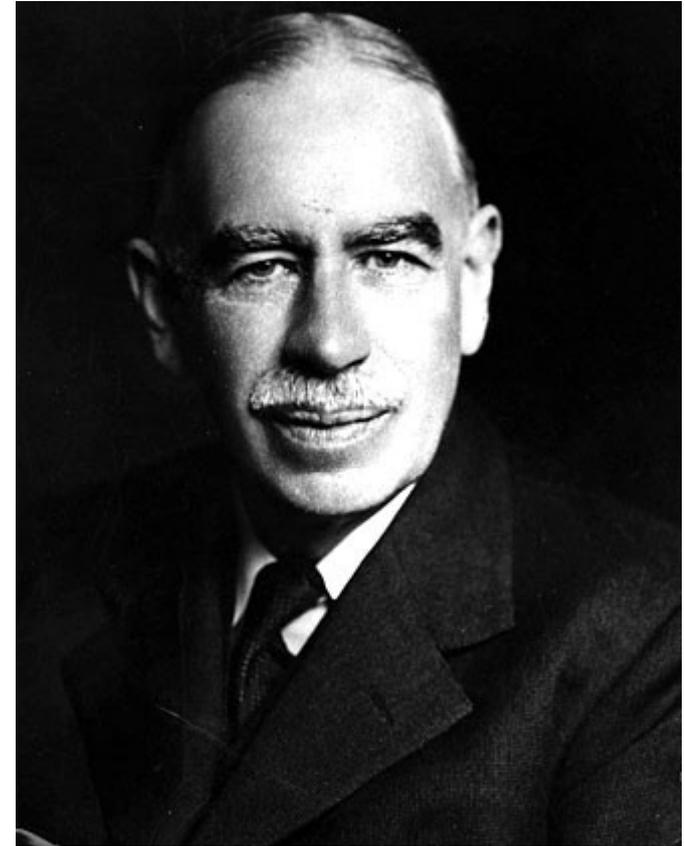
Keynes said that Capitalists would not work for the benefit of society but for themselves, and that governments should intervene – especially to moderate 'boom or bust' cycles of economic activity and to maintain full employment.

He was the father of 'macroeconomic policy' (using interest rates and taxation to control the economy).

Post-WW2, most countries were 'Keynesian' in their economic management. He organised Bretton Woods which founded the World Bank, the IMF and GATT (later the World Trade Organisation)

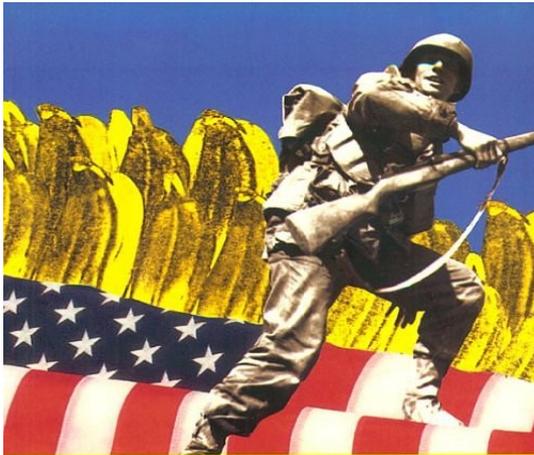
Keynes helped Roosevelt organise The New Deal following the 1929 stock-market crash and Great Depression of the 1930s in the USA. He was also the father of the 'Welfare State'. Criticised when he couldn't resolve stagflation following the imported inflation after the fuel crisis of 1973

John Maynard Keynes  
(1883-1946)





1953. The Anglo-American 'Operation Ajax' overthrew Mossadegh's democratically-elected government to install the US-chosen Shah of Iran



## Bitter Fruit

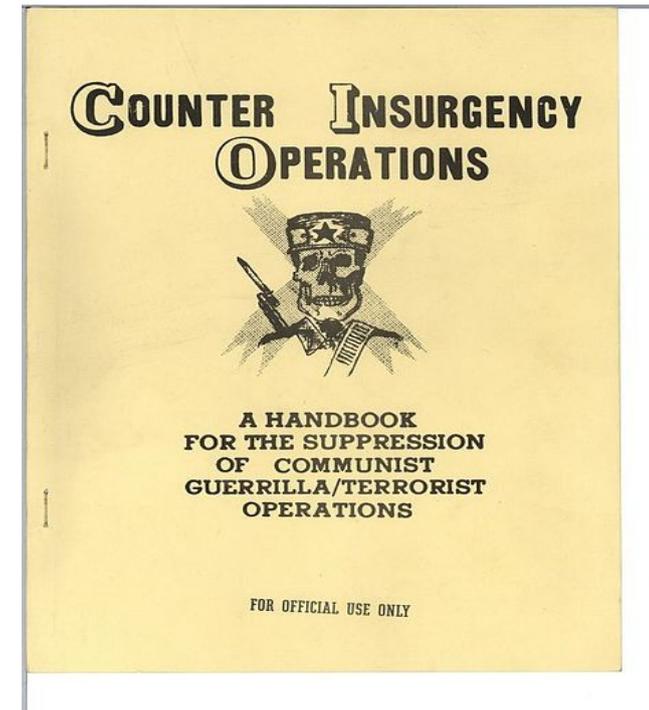
*The Story of the American Coup in Guatemala*

By Stephen Schlesinger and Stephen Kinzer

*New Essays by John H. Coatsworth, Richard A. Nuccio, and Stephen Kinzer*

The David Rockefeller Center Series on Latin American Studies, Harvard University

1951. Arbenz Guzman wins elections in Guatemala. He faced opposition from the US United Fruit Company. The CIA lead a coup d'état. Guzman was replaced by a US-backed military junta



11 SEPTEMBER 1973

*A Day of  
Shame*



1970. Salvador Allende wins Chile's Elections. The CIA does everything possible to remove him but fails. He dies in a CIA-backed coup in 1973 to be replaced by US-backed Pinochet.

That's Iran, Guatemala and Chile – but there's also Indonesia, Argentina, Panama, Nicaragua, Honduras, Bolivia, Haiti etc. Friedman and the Chicago Boys moved in to 'help' these countries on their road to neoliberal reform. Strongly supported by Ronald Reagan and Margaret Thatcher. These coups resulted in thousands of deaths, disappearances and suffering – and often with catastrophic economic consequences.



Friedman's policies are obviously anti-social and are hence best imposed by a dictator (favorable to and supported by the US) since a democracy would not accept them.

## ***Result of Chicago neo-liberalism in Chile:***

***13,500 civilians arrested, hundreds executed.***

***Economy – privatization, sale of national assets, deregulation, cuts to social spending (health, education...)***

***1974 – inflation hit 375% (highest rate in the world)***

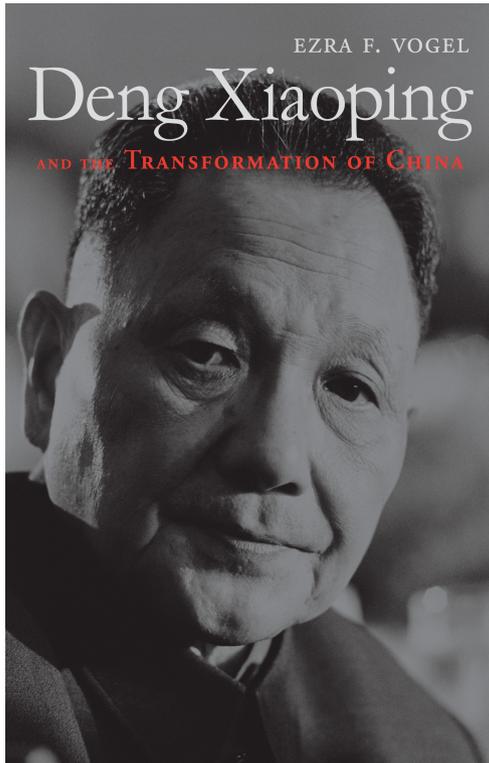
***Loss of 177,000 industrial jobs between 1973 and 1983***

***Creation of massive debt (14bn \$) to the IMF and World Bank (much for military spending)***

***In the first year of Friedman shock therapy – Chile's economy contracted by 15% and unemployment (3% under Allende) reached 20%.***

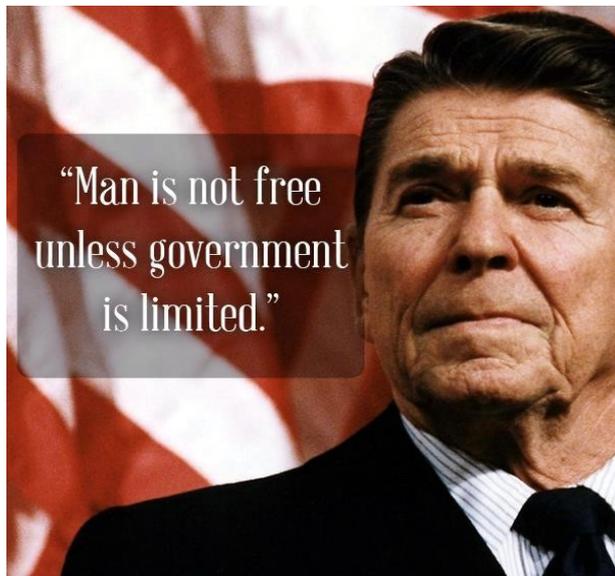
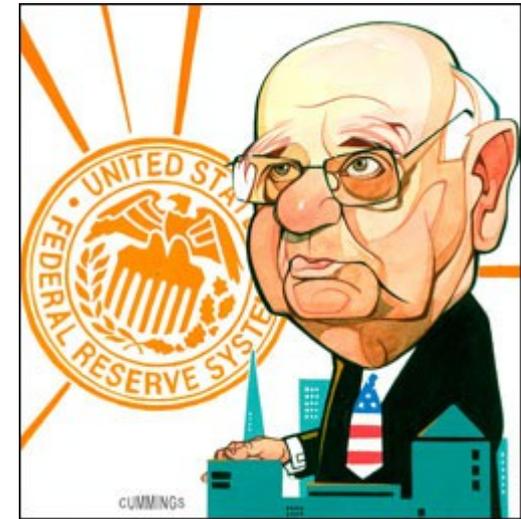
***Argentina, Chile, Uruguay and Brazil – the countries that had been the showcases of developmentalism – were now all run by US-backed military governments and were living laboratories of Chicago School economics. Thousands were imprisoned, tortured and killed, especially union leaders and 'socialists' (described as 'communists' in the US press). In Argentina 90% of state companies were sold under-priced to private companies. (NB more recently: Russia, Iraq, Greece)***

But how do you change a democracy that can't be overthrown? The world paradigm changes in the late 1970s – again with Friedman's help.



1978. China turns its back on communism and heads towards capitalism.

Paul Volker – US Fed. 1979. Attack inflation and ignore unemployment



Ronald Reagan  
US president  
1980

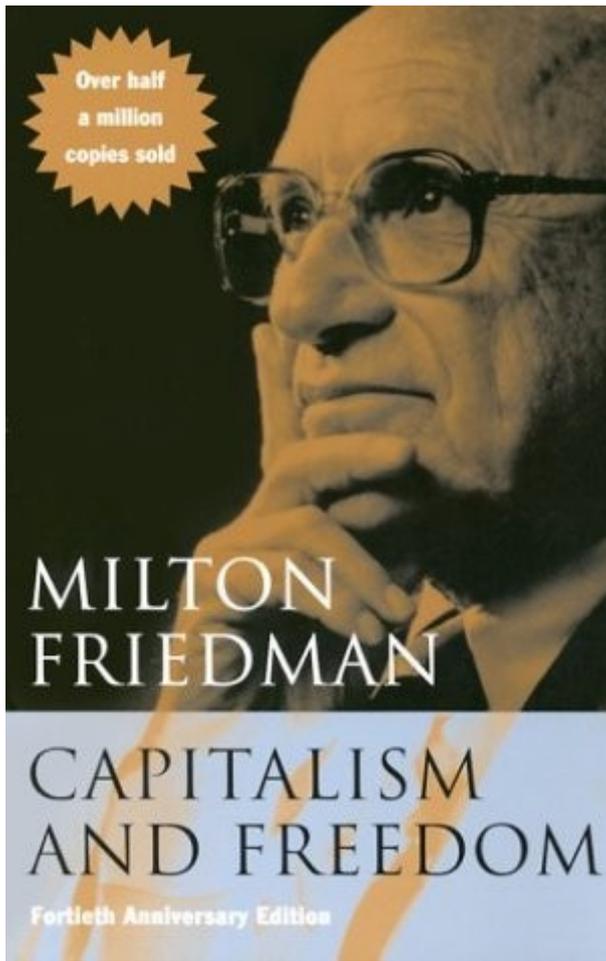


Margaret Thatcher (the Iron Lady):  
UK Prime Minister 1979

***“Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone”***

***“The decadent international but individualistic capitalism in the hands of which we found ourselves after the war is not a success. It is not intelligent. It is not beautiful. It is not just. It is not virtuous. And it doesn't deliver the goods”.***

**(Keynes)**



Friedman and The Chicago Boys from the University of Chicago followed the laissez-faire ideology of Friedrich Hayek (survival of the fittest). The first test ground for his theories was in countries whose democracy was overthrown by CIA-backed military take-overs (Iran, Guatemala, Chile, Argentina, Panama, Haiti, Nicaragua etc). The same model was used after the recent overthrow of Iraq.

His credo: remove rules and regulations standing in the way of making profit; cut back social funding, have low taxes at a flat rate, no minimum wage (use supply and demand), privatise health, education, pensions, national parks, and protect big corporations. Was considered marginal until he was supported by Reagan and Thatcher in the 1980s.

## ***Has neoliberalism been successful? If so, for whom?***

***The Chicago School took power in IMF and World Bank and WTO (during the Reagan / Thatcher era) to run things on a neo-liberal style – completely in opposition of its original objectives – and actually created US economic hegemony with disastrous results for the rest of the world.***

***IMF structural adjustment is the dictatorship of debt. Crisis opportunism is now the world's guiding logic of the most powerful institutions. It is a fundamental betrayal of their founding principles.***

***The World Bank and the IMF, financed through contributions from the initial 43 founding members, were given the explicit mandate to prevent future economic shocks and to make a fairer world.***

***Joseph Stiglitz, former chief economist of the world Bank, says : “Keynes would be rolling over in his grave if he were to see what has happened to his child”***

***The real track record of free-market economics: inequality, corruption, financial crises and environmental degradation when government after government embraced Friedman's advice.***

***Post-2008 Financial (subprimes) crash  
Which theory to apply since neoliberalism  
caused the crash ?***

**US used left-wing Keynesian policy** - liquidity easing (increase money supply)  
– cheap credit – print money (national bank buys US bonds at very low rates).  
Now back in growth.

**European Union used right-wing (neoliberal) policy – e.g. in Greece**

Lend money via the IMF (the Troika) with traditional IMF restructuring (austerity measures). Imposed (no public referendum or approval)

Sell-off public assets and services cheaply to private companies

Reduce public sector employment

Decrease public sector salaries and pensions (education and health)

Lend money to debtor country at high interest rates (NB rating agencies)

**Obviously unsustainable** since tax revenue diminishes and consumption reduces drastically. Unemployment increases considerably. Public services are severely reduced.

**Bailout money** used not to improve the economy but to service the (high) interest on the loan – i.e. the money goes to the German, French... lending banks. The lending banks borrow from the ECB at 0.5% and lend at up to 20%.

# CONCLUSION

Political economic theory is about understanding **what theories exist** / have existed and understanding their **application in history in a changing world**.

In Smith's, Marx's Keynes' time, countries were nation states with independent control and regulation.

The **current globalized situation is different** with:

- Common currency (the Euro)

- Free Trade groups and free-trade bilateral agreements

- Instant communication of prices and conditions

- Internet for ordering goods (Amazon, AliBaba...)

Can theorists like Karl Marx, Adam Smith, John Maynard Keynes, Milton Friedman, help us understand how to react to crises, unemployment, debt etc. and more importantly how can we avoid more crashes from happening?

We are currently in a neo-liberal paradigm, but it's not TINA 'There Is No Alternative' (Thatcher).

Can we change the system? Should we change the system?

There is **no right and wrong** (if we keep morality out of it!) – and I have **no truth to deliver**.

Students should be able to make personal, well-informed decisions to **position themselves politically**. **Education is about knowing which questions to ask**, not about remembering which answer should be regurgitated in an exam.

## ***Recommended Reading On Globalisation and Economic Theory***

- ***David Harvey. A Brief History of Neoliberalism***
- ***Naomi Klein. The Shock Doctrine: the Rise of Disaster Capitalism***
- ***Robert Skidelsky. Keynes: The Return of the Master***
- ***Kieran Allen. Marx and the Alternative to Capitalism***
- ***Charles Derber. Marx's Ghost. Midnight Conversations on Changing the World***
- ***Dave Renton. Marx on Globalization***
- ***Michael Veseth. Globaloney 2.0: the Crash of 2008 and the Future of Globalization***
- ***Jürgen Osterhammel and Niels Petersson. Globalization: a Short History***
- ***Peter Chapman. Jungle Capitalism: a Story of Globalization, Greed and Revolution***



**KEEP  
CALM  
AND  
ASK ME  
QUESTIONS**