

# Political Economy Lecture 6

- Neoliberal policies (1980s-?)
  - Historical context
  - What are they?
  - More than economic policies?
  - Success or failure?
- Reading by David Harvey on the website

- Why did they appear in the 1980s?
  - Developed countries
    - Low growth rates
      - Less investment due to lower profits (over-accumulation)
    - High inflation
      - Distributional conflict between workers and capitalists
      - Oil price shock
    - High budget deficits
      - Rise in social spending
      - Low tax revenues due to low economic activity

- Developing countries
  - Low growth & high inflation
    - No transition to export-led growth
      - ISI policies did not work properly
      - Protectionist trade policies
    - High dependence on foreign savings
      - Balance of payment problems
      - Accumulation of external debt
  - Strong labor movements (downward pressure on profits)

- Where did neoliberal policies emerge?
  - First attempt was in Chile in 1973
  - Late 1970s US (Reagan) and England (Theatcher)
  - Starting in the 1980s in Turkey, Latin America, and Africa.
  - The Rest of the world including former socialist countries in the 1990s
  - China seems to be an exception!

- Neoliberal policies focus on the following dimensions:
  - Self-regulating markets (liberalization)
  - Market economy vs. State (restructuring the role of the state)
  - Attack on labor (pro-business policies)
  - Ideological hegemony

- What are the neoliberal policies?
  - Deregulation of markets (including labor)
    - Trade liberalization
      - Theory of comparative advantage
    - Financial liberalization
      - Capital account liberalization (i.e. international capital mobility such as FDI or purchase of financial assets anywhere in the world)
      - Liberalization of domestic financial markets
  - Fiscal discipline (budget deficit reduction by curbing government spending) and low inflation
    - Critique of Keynesian Policies
  - Privatization

- Ideological hegemony
  - Ideologies are systems of widely shared ideas that are accepted as truth by significant groups in society.
  - Ideologies organize their core ideas into fairly simple truth-claims that encourage people to act in certain ways.
  - Hegemony implies that an ideology becomes dominant by consent not by force
  - Globalization is the friendly name
    - Globalization is about the liberalization and global integration of markets.
    - Globalization is inevitable and irresistible.
    - Nobody is in charge of globalization.
    - Globalization benefits everyone (in the long run . . .)

- Is there a benevolent state?
  - Governments consist of self-interest seeking individuals (public choice approach)
  - Rent-seeking private groups (government failure)
    - Corruption and waste of resources
- Self-regulating free market as the model for proper government.
  - How to judge state intervention?
    - Cost-benefit analysis
  - Decentralized state
    - Public-private ownership at the local levels
  - Customers or clients instead of citizens
  - Less accountable economic governance



- Privatization

## Inefficient State Economic Enterprises (SEE)

### WHY?

- Over-employment
  - Keynesian idea of wage as a source of demand versus wage as a source of cost
- Artificial prices
  - Low prices of the goods produced by the SEEs provided the private sector with cheap inputs (steel, electricity etc.)
- Abolishing monopoly
  - Creation of private monopolies instead of public monopolies

- Soft-budget versus hard-budget
  - Bailout of the private companies by the government
- Corruption (Use of resources in unproductive activities)
  - Bankruptcies in financial markets
- SEEs have been major contributors to the government revenue (i.e. tax payments), generated employment and supported private sector (e.g. cheap input prices)