From Embedded Liberalism to Neo-Liberalism
Today’s Agenda

• Where we are: The achievement of governance over the international economy
• The reality of American Hegemony: The golden age of embedded liberalism
• Overtaken by those we helped!!!
• How did the world respond in the absence of Hegemony?
So the United States rose to the occasion..........
The International Story: A triumph for embedded liberalism
How did the U.S. exercise hegemonic leadership?

• the United States assumed primary responsibility for the management of the world monetary system partially under the disguise of the IMF.

• The dollar became the basis of the international monetary system.

• The US took in the world’s distressed goods and began to build a trade deficit.
Post-War International Economic governance: weak institutions and American Hegemony
The Dollar greases the wheels of the international liberal economy

- ↑imports +↓exports → trade deficit → need to pay up → use $ as reserve and exchange currency → stable currency values.
Taking in the world’s distressed goods
The Cold War: Two models of political economy clash and become deadly
A contest of the two ideologies in Europe
But the U.S. won the contest! How?

- Aid for the development of European export industries: Marshall Plan
- Encouraged European cooperation in the European Community
- Why?
  - Military security
  - Financial backing
  - Took in Europe’s distressed goods
The Marshall Plan

Dorman Smith in The Phoenix Gazette, NRA
“He’s finally getting the hang of it.”
Marshall plan in action

The Marshall Plan
Rebuilding Europe

On June 5, 1947, speaking to the graduating class at Harvard University, Secretary of State George C. Marshall laid the foundation, in the aftermath of World War II, for assistance to the countries of Europe. At a time when great cities lay in ruins and national economies were devastated, Marshall called on America to “do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace.”

A delivery of wheat bearing the words “For European Recovery Supplied by the United States of America” is unloaded at Rotterdam, The Netherlands. (Courtesy of the George C. Marshall Research Library, Lexington, Virginia)
Marshall Plan
European Cooperation
U.S. Capital Flows to Europe
What were the results of U.S. hegemony for the “liberal” international economy?

• The Welfare State was protected
• Decline in Trade Barriers $\rightarrow$ Economic Growth
• Comparative Advantage and Liberal model vindicated

• currency $\rightarrow$ staimports $+$ $\downarrow$ exports $\rightarrow$ trade deficit $\rightarrow$ need to pay up $\rightarrow$ use Marshall Plan Dollars $+$ restrict imports from US $\rightarrow$ $\$ as reserve and exchange ble currency values $\rightarrow$ stable trade $+$ world trade in $\$
The “international economy” was divided into two camps
But the contest was deadly.....
Europe was the Cold War battleground.
What did America’s hegemonic role do to the United States economy?

• $\uparrow$ imports + $\downarrow$ exports $\rightarrow$ trade deficit $\rightarrow$ need to pay up $\rightarrow$ use Marshall Plann Dollars + restrict imports from US $\rightarrow$ $\$$ as reserve and exchange currency $\rightarrow$ stable currency values $\rightarrow$ stable trade + world trade in $\$$ $\rightarrow$ chronic US trade deficit
But the U.S. sacrificed to hold up the “free world”: The US Trade deficit: 1950-1973

But no problem....no one asked for payment!
U.S. balance of payments deficits continue
But for the U.S.....Overtaken by those we helped

- Growth of Western Europe and Japan

<table>
<thead>
<tr>
<th>Per Capita Income</th>
<th>1950</th>
<th>1973</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>$3,700</td>
<td>$11,534</td>
</tr>
<tr>
<td>U.S. and Canada</td>
<td>$5,257</td>
<td>$9.288</td>
</tr>
<tr>
<td>Japan</td>
<td>$1.926</td>
<td>$11,439</td>
</tr>
</tbody>
</table>
If the U.S. lost relative power, why play the role of hegemonic leader?

- It possessed the capabilities but why was it now willing?
Marxist explanations

- Overproduction and capitalist class control of the economy
- Need for U.S. export markets to relieve overproduction
- Bankers pushed U.S. leadership of the world economy

"After the war, our economic policy will be aimed at full employment and full utilization of a greatly enlarged industrial plant. These objectives, however, cannot be realized unless we find new outlets for products of farm and factory--outlets that will be steady and profitable after war demands have dropped off."
Economic Nationalist explanations

- Hegemony is a source of wealth, power and security
  - Control over raw materials
  - Control over sources of capital
  - Control over markets
  - Competitive advantage in the production of highly valued goods: control over high technology
Liberal explanations: Free Trade leads to Peace and American Prosperity

- "peace is only possible if countries work together and prosper together. That is why the economic aspects are no less important than the political aspects of the peace."
How EMBEDDED Liberalism ended....
In the USA...Deficit spending: War on Poverty
Deficit spending: Vietnam war
Too many dollars
Value drops
Exporting inflation
Exporting Inflation
Declining Confidence in the Dollar
Abandoning the Dollar for Gold
Closing the Gold Window
The U.S. plunges into debt and begins to borrow

- Expenditures exceeded revenues
- U.S. borrowed from other countries
The End of American Hegemony
The Rise of Neoliberalism: A new “golden straightjacket"
The Golden straightjacket
Growth of unregulated Financial Markets
The rise of Multinational corporations
The Triumph of classical liberal orthodoxy in the U.S.

• “the wisdom, ingenuity and resources of American business must be marshaled against those who would destroy it”
Neo liberalism triumphs in the U.S.
Decline of the Welfare state?

Table: Changes in the Breakdown of the Social Security-related Expenditure and in the Percentage the Expenditure Occupies in the General Account

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure for measures against unemployment</td>
<td>20.5</td>
<td>23.0</td>
<td>12.9</td>
<td>7.4</td>
<td>4.4</td>
<td>4.6</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Expenditure for public health service</td>
<td>12.8</td>
<td>9.5</td>
<td>17.7</td>
<td>12.4</td>
<td>7.0</td>
<td>4.8</td>
<td>4.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Expenditure for social insurance</td>
<td>12.2</td>
<td>26.7</td>
<td>40.6</td>
<td>61.3</td>
<td>69.3</td>
<td>62.2</td>
<td>59.1</td>
<td>61.9</td>
</tr>
<tr>
<td>Expenditure for social welfare</td>
<td>13.0</td>
<td>6.0</td>
<td>8.3</td>
<td>9.8</td>
<td>16.7</td>
<td>16.7</td>
<td>20.9</td>
<td>20.7</td>
</tr>
<tr>
<td>Expenditure for public assistance</td>
<td>34.4</td>
<td>26.7</td>
<td>20.5</td>
<td>19.1</td>
<td>13.6</td>
<td>11.6</td>
<td>11.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Percentage in the General Account</td>
<td>10.2</td>
<td>11.6</td>
<td>14.1</td>
<td>14.3</td>
<td>18.4</td>
<td>19.3</td>
<td>18.2</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Source: “Finance Statistics,” Ministry of Finance
Transformation of International Institutions
New Role for the IMF: spread liberalism to developing countries
New Role for the World Bank
GATT becomes the WTO
Do Institutions of economic neo-liberalism undermine democracy?
The WTO: A Distributive Justice Critique
The Economic Nationalist Critique
The rise of Multinational corporations
The Dollar reserve currency role