From Embedded Liberalism to Neo-Liberalism

The Rise of "Free Market Vanilla" and decline of other Political Economy Flavors

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 embedded liberal Hegemony?

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 → multilateral trade grows.

Taking in the world’s distressed goods

The Cold War: Two models of political economy clash and become deadly

•For our purposes, a war between real live versions of two models of political economy: the political economy of Freedom and the Political Economy of Community. Liberalism and Communism.

•Remember how industry and labor in the U.S. did not want the U.S. play the role of [illegible]?

•Everyone remembered how U.S. isolation had not helped world [illegible] in the two decades before World War [illegible].

•Truman did not [illegible] repeat Wilson's error and not persuade congress to be involved abroad.

•The Soviet Union was [illegible] new "aggressor" nation. The Sovs wanted some [illegible] territory back from Turkey, and the Greeks were fighting a [illegible] communist guerillas, supposedly controlled by Moscow.

•On March [illegible] 1947, President Truman make the address that became known as the "**Truman Doctrine**". This was a U.S. pledge to "support free peoples who are resisting attempted subjugation by armed minorities or outside pressures."

•The Soviet Union interpreted this as [illegible] intrusion [illegible] into the affairs of [illegible]

•And the Cold war began.

•The U.S. began [illegible] around the world to [illegible] communism from spreading.

•A British [illegible] June 1947 shows [illegible] and Stalin as two taxi-drivers trying to get customers. The 'customers' are labeled Turkey, Hungary, Bulgaria, Austria'.

•A communist [illegible] in Greece

A contest of the two ideologies in Europe

So the US provided Military security and economic aid

Dorman Smith in The Phoenix Gazette, NEA
"He's finally getting the hang of it."

European Cooperation

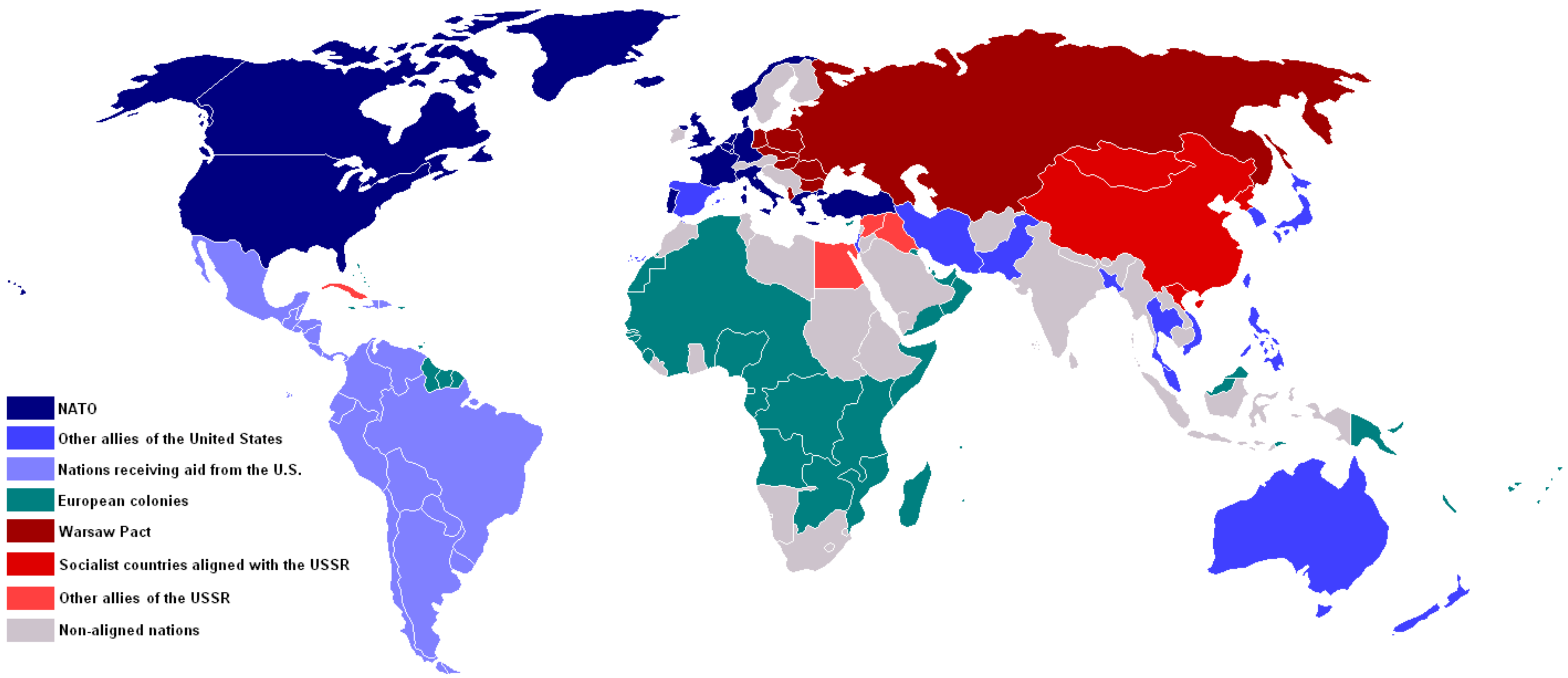
U.S. Capital Flows to Europe

- ↓exports → trade deficit → need to pay up →use Marshall Plan Dollars + restrict imports from US + European integration→ transaction costs + $ as reserve and exchange ble currency values → stable trade + world trade in $

What were the results of U.S. hegemony for the "liberal" international economy?

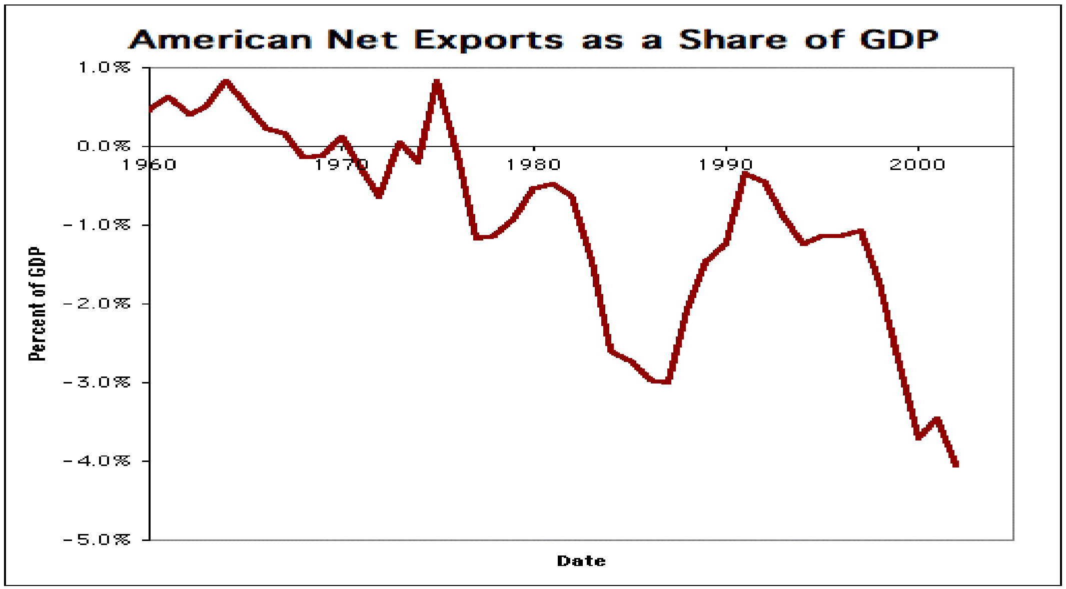
- The Welfare State was protected
- Decline in Trade Barriers → Economic Growth
- Comparative Advantage and Liberal model vindicated

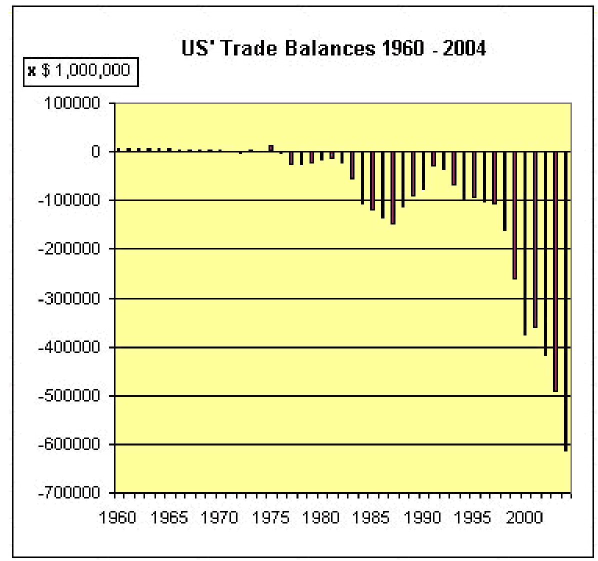
The “international economy” was divided into two camps



But the contest was deadly…..

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!

But for the U.S.....Overtaken by those we helped

- Growth of Western Europe and Japan

	Per Capita Income	
	1950	1973
Western Europe	$3,700	$11,534
U.S. and Canada	$5,257	$9.288
Japan	$1.926	$11,439

If the U.S. lost relative wealth 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."

-- U.S. Treausry Department report to President Roosevelt in 1944:

Economic Nationalist explanations

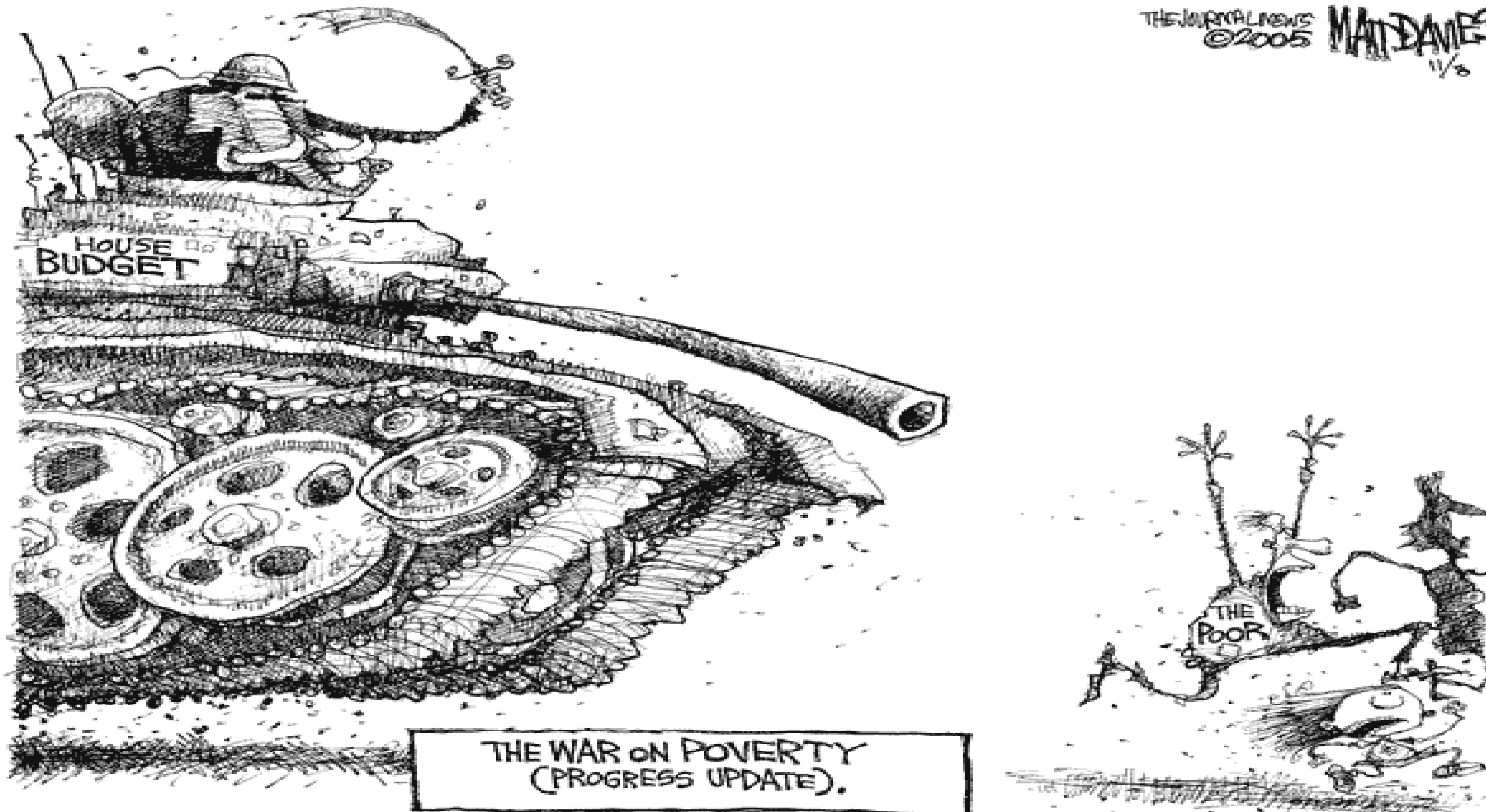
- Hegemony is a source of wealth, power and security
  - Control over raw materials
  - Control over sources of capital
  - Control over markets
  - Competitive advantage in the production of highly valued goods: control over high technology

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

Vietnam War

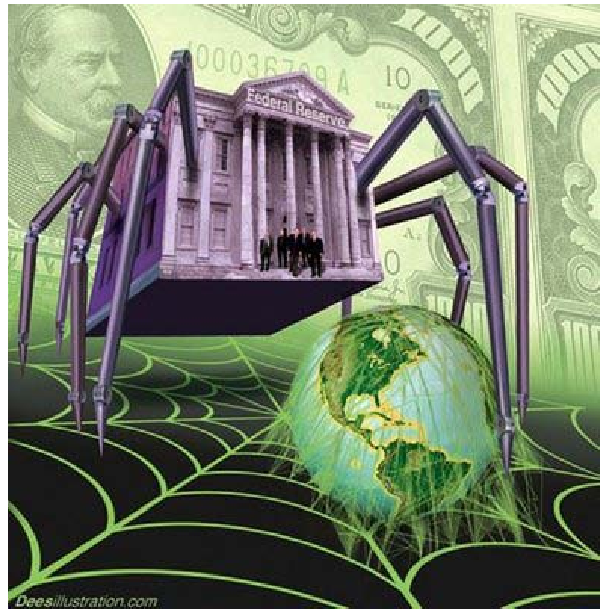
The United States entered the war to prevent a communist takeover of South Vietnam as part of their wider strategy of containment as . Military advisors arrived beginning in 1950. Then came the massive escalation of the Vietnam war in the 1960s.

How was the war in Vietnam to be financed when there was a war on poverty at home?

Too many dollars

Exporting Inflation

Declining Confidence in the Dollar



US = ↑imports +↓exports → trade deficit → need to pay up → deplete reserves → ↓ confidence in currency value ↓ currency value → unstable trade (bad for trading system)

Abandoning the Dollar for Gold

Closing the Gold Window

http://www.youtube.com/watch?v=iRzr1QU6K1o

Dollar devaluation

The U.S. begins to borrow and plunges into debt

- Expenditures exceeded revenues
- U.S. borrowed from other countries (sold bonds to other countries)
- Why did others want to buy US debt?
  - Long term interest rates
  - US providing military security
- Capital inflow for the US but…..
- Long-term debt + overvalued $

The End of American Embedded Liberal Hegemony

The Rise of Neoliberalism: A new “golden straightjacket

The rise of a “casino” economy

- End of hegemony removes international “safety net”
- Need to compete in the global economy for economic growth and to remove BoP deficits
- Requirement for competitiveness: End of the welfare state
- International institutions that promote and protect a neo-liberal international economy

End of welfare state: The Triumph of classical liberal orthodoxy in the U.S.

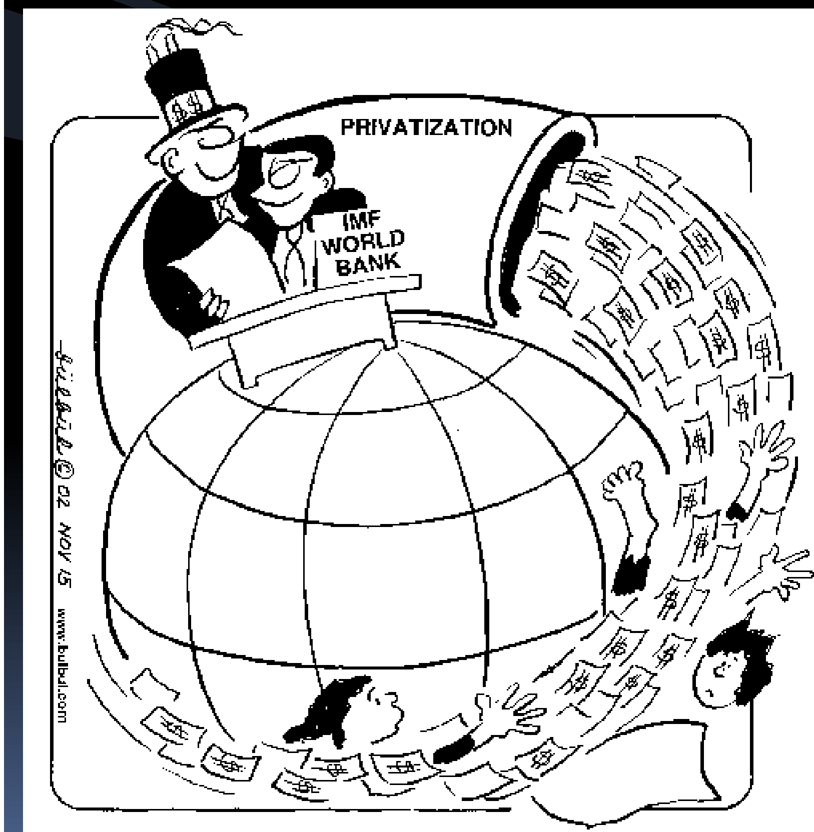
- "the wisdom, ingenuity and resources of American business must be marshaled against those who would destroy it"
- What is Neo-liberalism? http://ser.oxfordjournals.org/cgi/content/full/mwn016

Decline of the Welfare state?

	1955	1960	1965	1970	1975	1980	1985	1990	1995	1999
Expenditure for measures against unemployment	28.5	23.0	12.9	7.4	4.4	4.6	3.8	3.0	2.1	2.1
Expenditure for public health service	12.8	9.6	17.7	12.4	7.0	4.8	4.8	4.8	4.6	3.3
Expenditure for social insurance	12.2	35.7	40.6	51.3	59.3	62.2	59.1	61.9	60.8	59.0
Expenditure for social welfare	12.0	6.0	8.3	9.8	15.7	16.7	20.9	20.7	24.9	28.5
Expenditure for public assistance	34.4	25.7	20.5	19.1	13.6	11.6	11.3	9.5	7.6	7.2
Percentage in the General Account	10.2	11.6	14.1	14.3	18.4	19.3	18.2	17.5	19.6	19.7

Source: "Finance Statistics," Ministry of Finance

Transformation of International Institutions



New Role for the IMF: spread liberalism to developing countries

- Balance of payments lending in exchange for liberal reforms: structural adjustment
- Washington Consensus: stabilize, privatize, liberalize: put on the “golden straightjacket”
- No chance for the welfare state
- Contributes to freedom of finance capital to roam the earth
- Contributes to freedom of multinational corporations to roam the earth

New Role for the World Bank: focus on fostering neo-liberal policies as condition of lending

- Moved from the task of financing reconstruction projects for Europe after WWII
- To the task of financing development projects in poor countries
- Imposed the same conditions on lending as the IMF

GATT becomes the WTO

- Goodbye embedded liberalism: members not permitted to protect their populations
  - Goodbye child labor protections
  - Goodbye environmental protections
  - Goodbye health and safety protections
  - Hello Private actors: banks, multinational corporations
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This institutional framework permits The rise of Multinational corporations

- Given these new “global guardians” of the market, private actors have new powers
- Corporations sit on advisory boards of WTO, IMF, and World Bank
- Global FDI grew from $50 billion to $2.5 trillion in 30 years

…and the growth of unregulated global finance

- ***International movements of money – both volume and speed***
- cross-border bank lending has grown about 10% annually.
- daily foreign exchange trades now exceed by a wide margin the combined reserves of all central banks.

The result: Increasing privatization

- Some say international institutions governing the global economy have been weakened
- Only those who prefer embedded liberalism say that
- The institutions have simply changed (and strengthened) to govern an international neo-liberal economy
- Privatization is the goal of neo-liberalism

From Embedded to neo-liberalism: The rise of a “casino” economy

So….. If the U.S. pursued economic nationalism after hegemony, how did we get a neo-liberal global economy?

- U.S. hegemony supported embedded liberalism
- Without a hegemon and with IFIs and WTO transformed to protect neo-liberalism*, Private* forces are unleashed and unregulated
- Many *governments* were then free to pursue economic nationalism
- Why didn’t the world devolve into the fragmentation of the 1930s?

Because of the U.S. market and the $

- First of all, freedom, not stability, is the goal
- The U.S. market still stimulates exports abroad because
  - Americans consume wildly
  - Demand met by imports
- The U.S. is also a magnet for foreign capital
  - Strong dollar
  - Low inflation rate
- But Financial crisis suggests instability

Maybe fragementation will yet occur. Without embedded liberalism, economic nationalism can rear its head: indicators are PTAs and Subsidies

- What are PTAs?
  - Two or more parties with preferential access
  - Viviolates MFN obligation
  - End of 2004: 300 PTAs
  - 50% of global trade
- Rich countries give mammoth agricultural subsidies

INTERPRETATIONS

The WTO: A Distributive Justice Critique: neoliberalism creates growing inequality

- The rich get richer, the poor get poorer
- A “race to the bottom”
- “non-commercial values” cannot play a part in trade rules
- Property rights preferred to health and human lives: “right to profit” over “right to life”

And Institutions of economic neo-liberalism undermine democracy

- Are these organizations a new source of global dominance, surveillance, and manipulation of the nation-state?
- Conditions of IMF and world bank loans not subject to domestic debate in borrowing countries
- WTO rules supersede domestic laws

The Economic Nationalist Critique

- Organizations undermine state sovereignty and make private actors more powerful than states

A Liberal rebuttal: Global Growth without a hegemon and with neo-liberalism