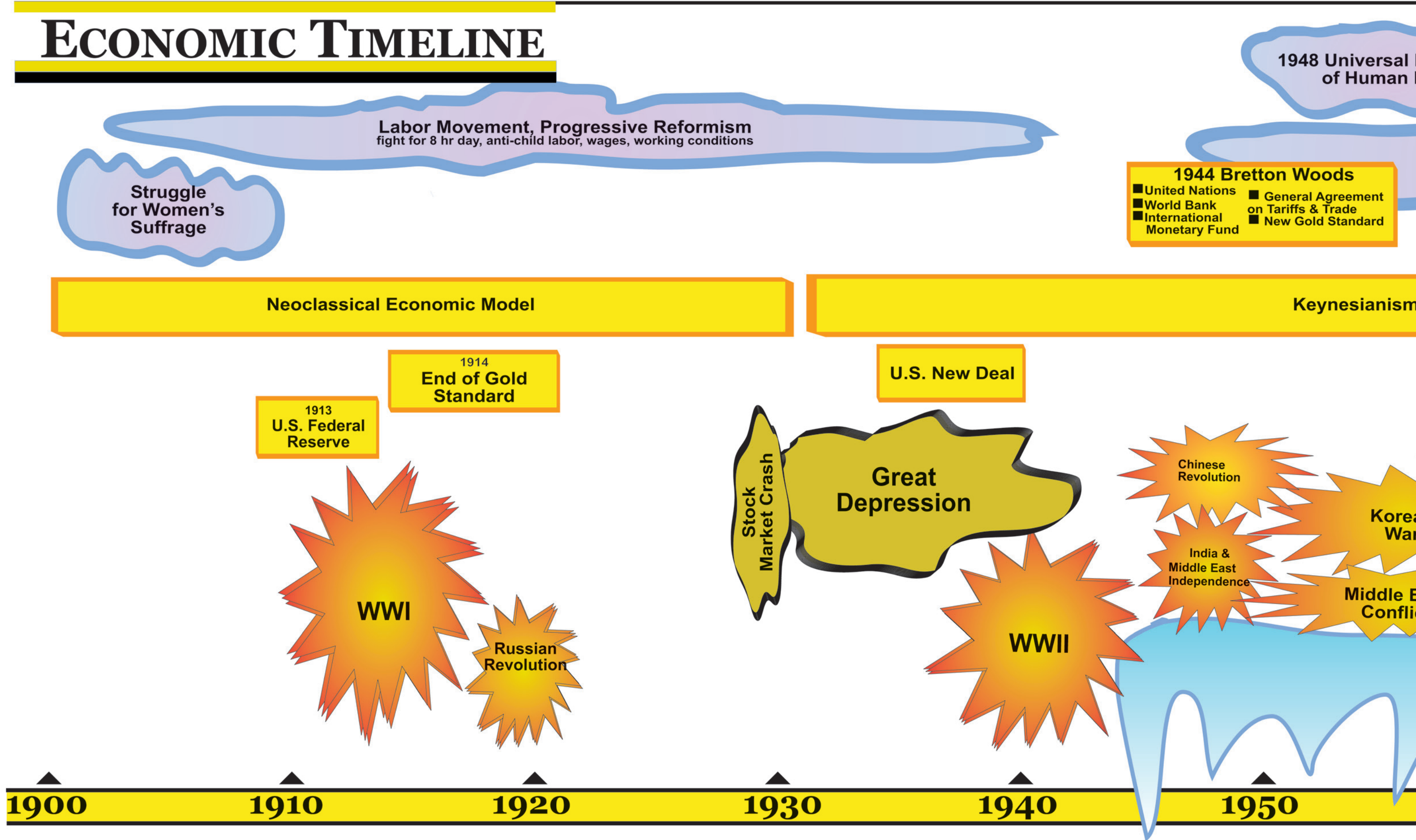


ECONOMIC TIMELINE
1948 Universal
of Human
Labor Movement, Progressive Reformism
fight for 8 hr day, anti-child labor, wages, working conditions
Struggle for Women's Suffrage
1944 Bretton Woods
United Nations
World Bank
International Monetary Fund
General Agreement on Tariffs & Trade
New Gold Standard
Neoclassical Economic Model
Keynesianism
1914 End of Gold Standard
1913 U.S. Federal Reserve
U.S. New Deal
Stock Market Crash
Great Depression
Chinese Revolution
India & Middle East Independence
WWI
Russian Revolution
WWII
1900
1910
1920
1930
1940
1950

Economic Timeline Notes

This timeline can be used to tell many stories, but the one that we want to focus on here is that historically economic crises have led to overthrow of old, and the rise of new, economic models. We look at two such breaks: the Great Depression and the economic crisis of the 1970s. The question that we now face is how to act effectively in light of the current economic and environmental crises.

The Struggle Over Economic Ideologies

Economics is sometimes called the 'queen of the social sciences' because it makes heavy use of data, mathematical models, and other tools of 'hard' science.

In reality, economic theories and economies are not based on natural laws (like gravity or friction) but are social constructions which means they are made by people.

The dominant economic system has changed throughout history. We've seen hunter-gatherer, feudal, slave based, socialist, and capitalist economies. Each economic system has had a dominant economic theory associated with it (or paradigm if you want a big word to throw around).

In some periods there has been rivalry between competing economic systems and their economic theories, for example between capitalist and Communist Party-led states during the Cold War. Within capitalism there have been changes from time to time in institutions, policies, and the exact form of the dominant economic theory.

The outcome of the competition among economic theories has more to do with power, politics and struggle than science.

Crisis and Paradigm Shifts: From Classical to Keynesian Economics

Prior to the Great Depression in the 1930s, the neoclassical school dominated capitalist economics.

The neoclassical school believed that markets were 'self-regulating,' which is to say that they will right themselves if thrown off balance. They looked at the upswings and downswings of the business cycle as natural and self correcting.

The neoclassical school's macro-policy prescription then is that the government should do nothing. The economy will right itself as long as the government does not interfere and distort market signals.

But then along came the Great Depression of the 1930s and the 'do nothing' policy prescription saw a recession deepen into a depression that went on and on.

British economist John Maynard Keynes (pronounced *canes*) argued that although the cost of production (wages, prices, interest and rents) were falling as predicted by neoclassical theory, business investment would not revive because businesses had no confidence that they would be able to sell their goods and services given the economic depression.

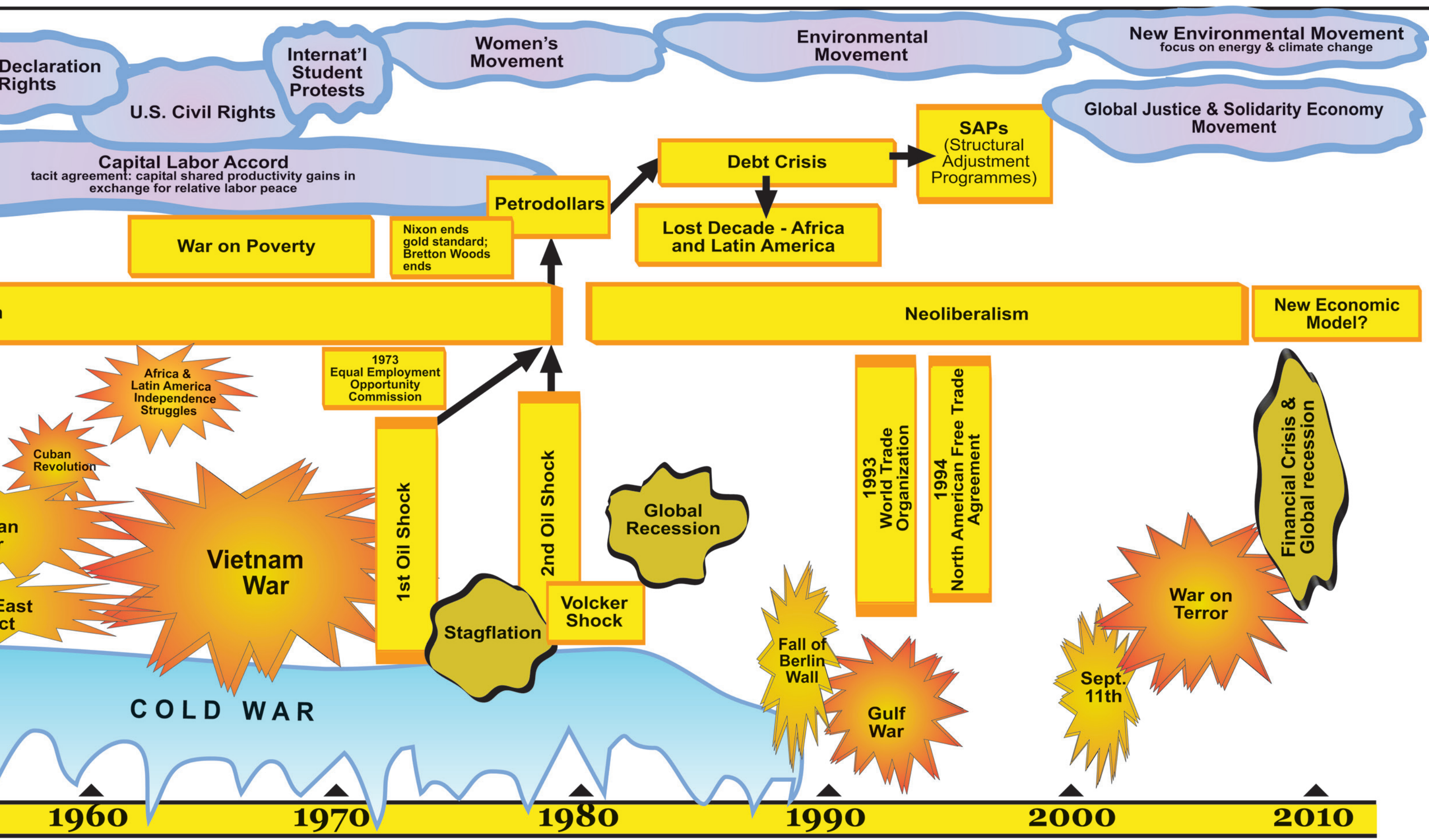
Keynes argued that the government must step in to 'jump start' the economy by stimulating demand.

The Great Depression ushered in a period of Keynesian macroeconomic (macro meaning 'whole' or 'big') policy: active role for the government in stabilizing the economy using fiscal and monetary policy.

Governments, including the U.S. and the U.K., implemented public works programs to simultaneously provide employment and to jump start the economy, but they were a drop in the bucket compared to the depth of the Great Depression. It was really only the massive public spending on the Second World War that pulled the economy out of its slump.

Still, Keynesian macro-policies had displaced those of the neoclassical school. Not only was government intervention in the economy legitimized, but also social welfare programs that addressed 'market failures'—socio-economic problems that the market couldn't remedy—such as unaffordable housing, unemployment, poverty, and access to health care for the poor.

Social welfare programs also served as an 'automatic stabilizer,' which meant that if the economy went into decline, government spending would automatically rise in the form of unemployment benefits and other social welfare payments—this would counter the economic downturn.



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From Keynesian to Neoliberal Economics

The Keynesian economic model held sway through the mid-70s when it was undermined by such problems as stagflation (high inflation [rising prices] and unemployment at the same time), a falling rate of profit, increasing class conflict, and growing instability in the international monetary system.

Keynesian economic policy would try to smooth out the ups and downs of the economy by trading off unemployment against inflation. If inflations was too high the government would put the brakes on the economy (through monetary or fiscal policy) and the economic slowdown would cool down inflation. If unemployment were too high, then the government would stimulate the economy—even thought this might mean setting off some inflation.

The traditional Keynesian prescriptions were not fully effective against simultaneous high inflation and unemployment, since when they were used to combat one problem, the other got worse. Also, they could not solve the other problems of a falling profit rate, international monetary instability, and rising class conflict.

One contributing factor to stagflation was the oil shocks in the 70s which saw the price of oil quadruple. This was due to the ability of OPEC (Organization of Petroleum Exporting Countries) to restrict the supply of oil—short supply made the price rise. The rise in the cost of oil led to an across-the-board increase in the cost of production. This contributed to a rise in the general price level—that is inflation. But the higher cost of production also meant slimmer profits (apart from the oil companies)—businesses cut back on investment and laid off workers, raising unemployment.

Inflation and the falling rate of profit was finally overcome in the early 80s when the U.S. central bank (the Federal Reserve) deliberately created the worst recession since the Great Depression and the effect was felt worldwide. Unemployment and economic stagnation reached such unbearable levels that inflation was finally crushed. Also, workers' bargaining power collapsed due to high unemployment while the government attacked labor unions, which led to a rising profit rate again after the early 1980s.

To put it simply, the Keynesian goal of achieving growth, low unemployment and low inflation was thrown out in favor of keeping inflation under control and restoring the rate of profit, no matter what the cost on the unemployment front.

Conservative economists and ideologues were able to exploit the economic crisis of the late 70s by ushering in a new economic paradigm—in the U.S. it was initially called Reaganomics, in the U.K. it was called Thatcherism, and now we would recognize it as neoliberalism.

A crude summary of the principle of neoliberalism would be: Markets good, government bad. This anti-government sentiment was famously expressed by top Republican strategist Grover Norquist: “My goal is to cut government in half in twenty-five years, to get it down to the size where we can drown it in the bathtub.”

The neoliberal agenda has pursued: tax cuts, attacks on social welfare programs, privatization, deregulation, ‘free’ trade, and anti-worker/union measures. It has to be said that this is the public rhetoric—but this rhetoric is routinely violated when it benefits the corporate and financial elite. The result has been rising inequality and an increased concentration of wealth and power in the hands of the 1%.

Neoliberalism also lay the foundation for the current crisis: deregulation enabled financial and real estate bubbles to grow unchecked. The attack on workers and unions resulted in a flat-lined real wage (adjusted for inflation) and growing debt for households. When the housing bubble popped, it triggered a meltdown in the financial sector, vaporizing vast amounts of wealth. For the 99% this meant a sharp fall in the value of their homes and retirement funds, as well as millions of job losses.

The economic meltdown of 2008 was a product of the neoliberal paradigm. The question that we now face is whether we will be able to use the crisis to shift from this failed economic model to one that puts people and planet at its heart.