

Geography N20

Week 3 – 7/21/15



Regime Change and the Neoliberal Revolution:
The Chicago Boys Take Over the World

Review - Collapse of Imperial Regime: Great Depression, Two World Wars

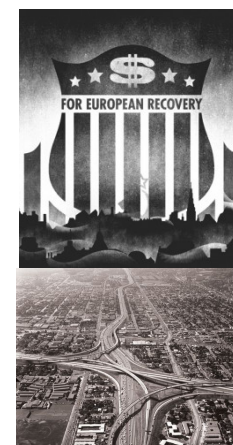
- WWI and aftermath: Treaty of Versailles
 - Industrialization = Industrial War = Industrial death/destruction
 - Financialization – rising influence of US capital, banks
 - German war reparations & punitive debt burden
- Wall Street Crash of 1929 / Great Depression
 - Financial overspeculation → crash, global economic crisis
 - Key event for postwar economists: how did it happen?
 - Skyrocketing unemployment & poverty
 - New Deal (USA): FDR plan to create jobs through public works
 - Weimar Germany – economic crisis, hyperinflation, crushing debt
 - Double Movement: social unrest, rising counter-movements
 - Left: Communism (USSR), international workers' movement
 - Right: Fascism (Nazi Germany, Italy, Spain), militant nationalism
- WWII – most devastating war in world history
 - Destroyed much of Europe/Japan's infrastructure, industrial capacity
 - USA emerges as top capitalist power – economically & militarily



Review - Keynesianism:

Economic paradigm of postwar regime

- Macroeconomics – global economy as a *system*
 - Tendency toward crisis – requires policy management (politics + economics)
 - ‘Demand-side’: kick-start growth w/ demand; put \$ in hands of consumers
- Strong state intervention in economy (‘embedded liberalism’)
 - Public works to create jobs and stimulate demand
 - Marshall Plan – Reconstruction of Europe
 - Welfare state policy at home: Social Security, minimum wage, healthcare, education
 - Regulation of financial sector to prevent excessive speculation, usury
 - Deficit spending during downturns
 - Less capital on hand → need to borrow to restart engine of growth
 - State-guaranteed currency (such as bonds) – tied to future productivity
- Bretton Woods & Global Governance Institutions/Policies
 - IMF, World Bank, GATT(WTO) – loans to developing economies
 - US \$ as world reserve currency – tied to oil, gold (until 1971)
- ‘Golden Age of Capitalism’
 - Real gains for 1st World working classes → ‘mass consumer society’
 - Capital-labor ‘class compromise’ (*In reader: Harvey)



The Golden Age of Capitalism (for workers/veterans in First World):



A World of New Nations: Decolonization, Development & the Cold War

(from Week 2)

- Development after Independence: Self-determination ?
 - Modernization & Industrialization / 'Take-off' (**In reader: McMichael*)
 - Stage theory of development – 'catch up' to West (postwar American society as model)
 - National industrialization/ISI: develop domestic manufacturing, consumer market
 - Developmental State – government-run industry, public works, urban development
 - Inherited infrastructure of colonial economy (based on ag/extraction of raw materials)
 - Development alliances (US, firms in former imperial countries / USSR)
- Postcolonial Nation-States: challenges to self-determination
 - Nationalism: forging a collective identity, common social values/goals
 - Social cohesion in territories arbitrarily determined by colonial powers
 - Multiple ethnic groups, religious communities; conflicts and interests affected by colonialism
 - Class alignments (national bourgeoisie, peasants, intellectuals)
 - Different groups = degrees of identification with 'Euro-centric' ideals, culture, society, values
 - Fanon: Postcolonial 'Nation' = collective identity forged in struggle (**In reader: Prashad*)
 - Foreign obstacles – Cold War & the 'hidden fist' of bipolar economic order
 - Geopolitics of economic assistance (aid, development loans, infrastructure financing)
 - Military interventions (proxy wars, coup d'etats, invasion/occupation)

Cold War and Bi-Polar Hegemony: First/Second/Third Worlds

- Capitalist 'pole' (USA + Europe) vs. Communist 'pole' (USSR + China)
 - Separated industrialized world into 'capitalist' & 'communist' spheres; nuclear deterrence
 - Third World: postcolonial nations seeking self-determination; 'pulled' to one pole or another
 - Materials & markets for industry – economic dependencies on US / former imperial nations
 - Nationalization of resources → destabilization (Proxy Wars)



Cold War and Bi-Polar Hegemony: First/Second/Third Worlds



Map 2:

US Military and CIA Interventions since World War II

■ targeted countries ★ US bombings — US government assassination plots

Source: <http://www.killinghope.org/>
and CIA Intervention Since World War II, 2004
gel at combatingglobalization.com
y granted.

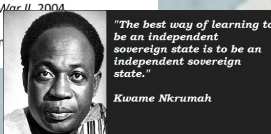


Coup d'etat:

Jacobo Arbenz (Guatemala), 1954

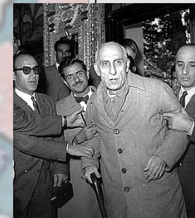
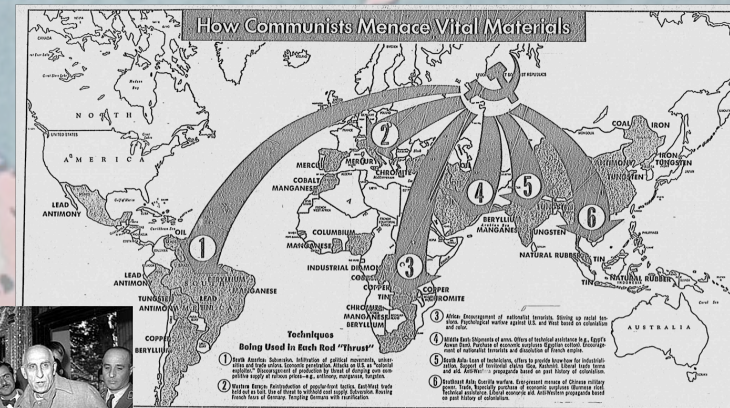
Coup d'etat:

Kwame Nkrumah (Ghana), 1966



"The best way of learning to be an independent sovereign state is to be an independent sovereign state."

Kwame Nkrumah



Coup d'etat:

Mohammed Mossadegh (Iran), 1953



Proxy/active war:

Vietnam (1946-54; 1955-75)



Proxy war:

Angola (1975-2002)

Coup d'état! US intervention, regime change
and the 'hidden fist' of the Cold War economy

FILM:

“Confessions of an Economic Hitman”

*Independent production (2009) | directed by Stelios Kouloglou
featuring John Perkins – former chief economist for Chas T. Main*

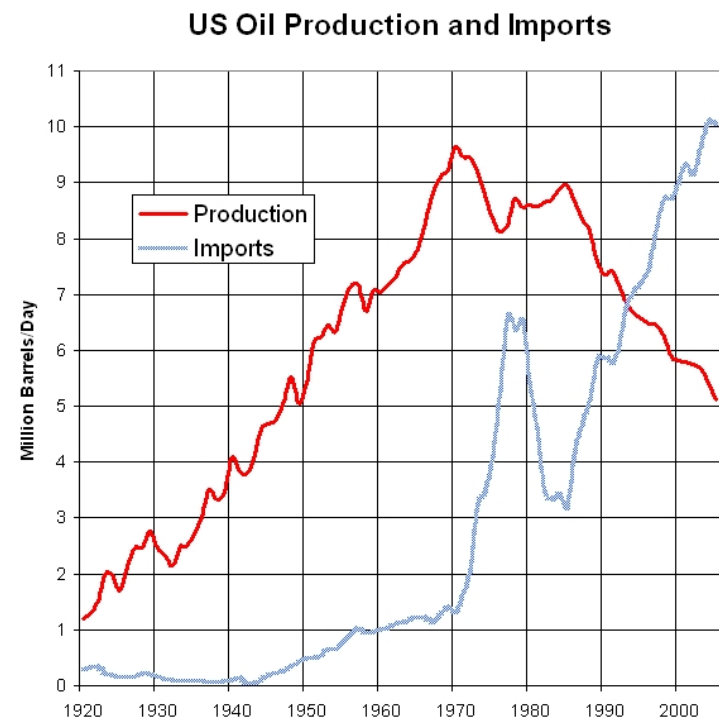
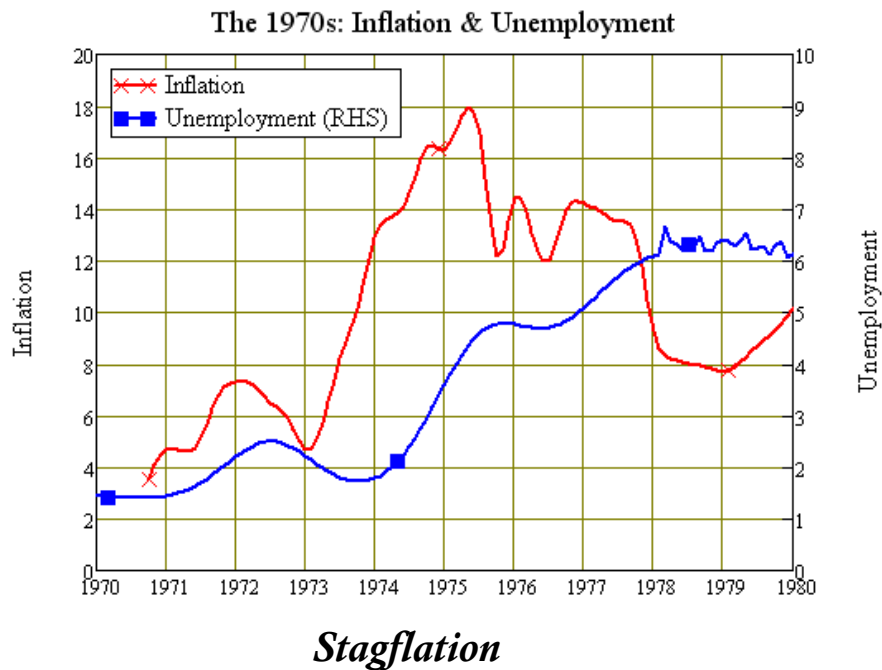
Excerpt: Early examples of United States-sponsored regime change (9 min.):

1953 (Iran) – Mohammed Mossadegh (*nationalized oil supply*)
1954 (Guatemala) – Jacobo Arbenz (*expelled United Fruit Company*)

End of Capitalism's 'Golden Age': 1970s Stagflation, Oil Shocks

- Early 1970s: Dynamism of Western industrial economies slows down
 - Rising unemployment + inflation ('stagflation')
 - 'Malaise' among working class – strikes, protests, 1968 uprising
 - Fiscal crises (mismatch between tax revenue & social spending)
 - Fixed gold-US Dollar standard breaks down; Nixon ends 'peg' in 1971
- Oil Price Shocks (1973 & 1979)
 - Political/Trade conflict: '7 Sisters' (Western oil companies) vs OPEC nations
 - US hits peak; increasing dependence on Middle Eastern oil
 - US as world reserve currency – tied to oil ('petrodollars')
 - 1971 shift to 'floating' value devalues dollar; reduces income for OPEC exporters
 - OPEC imposes embargo on Western nations
 - Oil embargo precipitates full-blown economic recession (in US especially)
 - Long lines at gas stations; tightened government controls on consumption
 - Revives skepticism re trade barriers, economic nationalism of Third World
 - 1979: 'Second Oil Shock' after Iranian Revolution
 - Retaliation at USA for 1953 coup against Mossadegh, installation of Shah

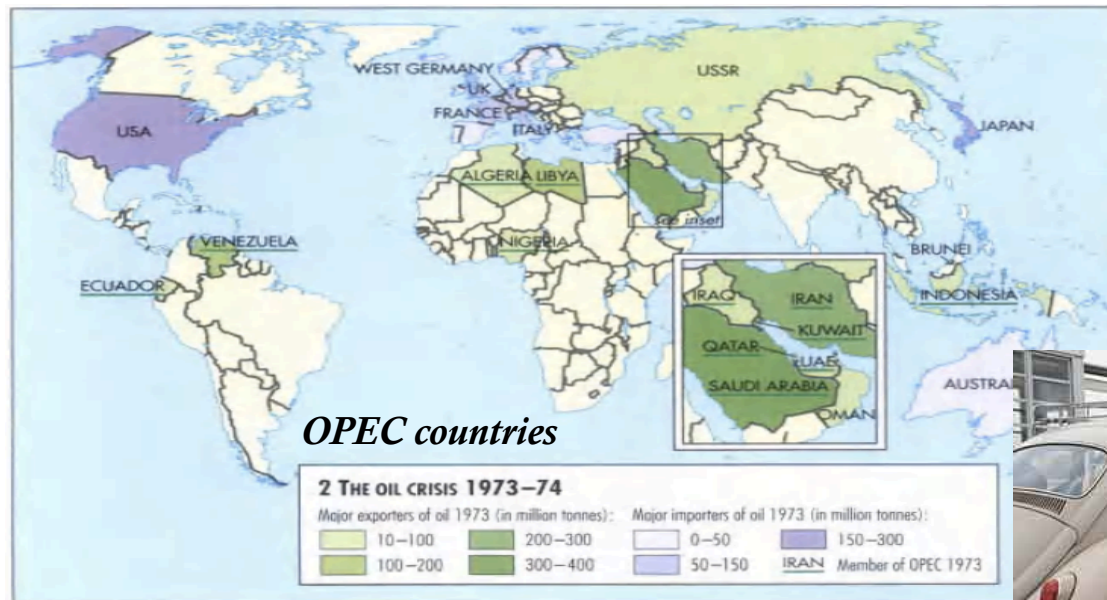
End of Golden Age of Capitalism: 1970s, Stagflation, Oil Crisis



*Peak oil production in U.S.;
dependence on imports from OPEC*

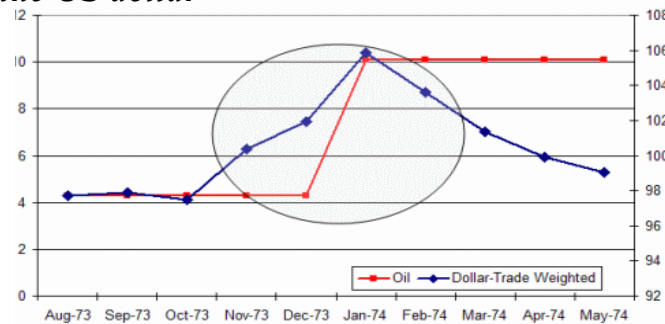
Geopolitics of Oil Shocks

(*in reader: Mitchell, 'Carbon Democracy')



Impact on the US dollar

1973 Oil Shock



Reaction in U.S.

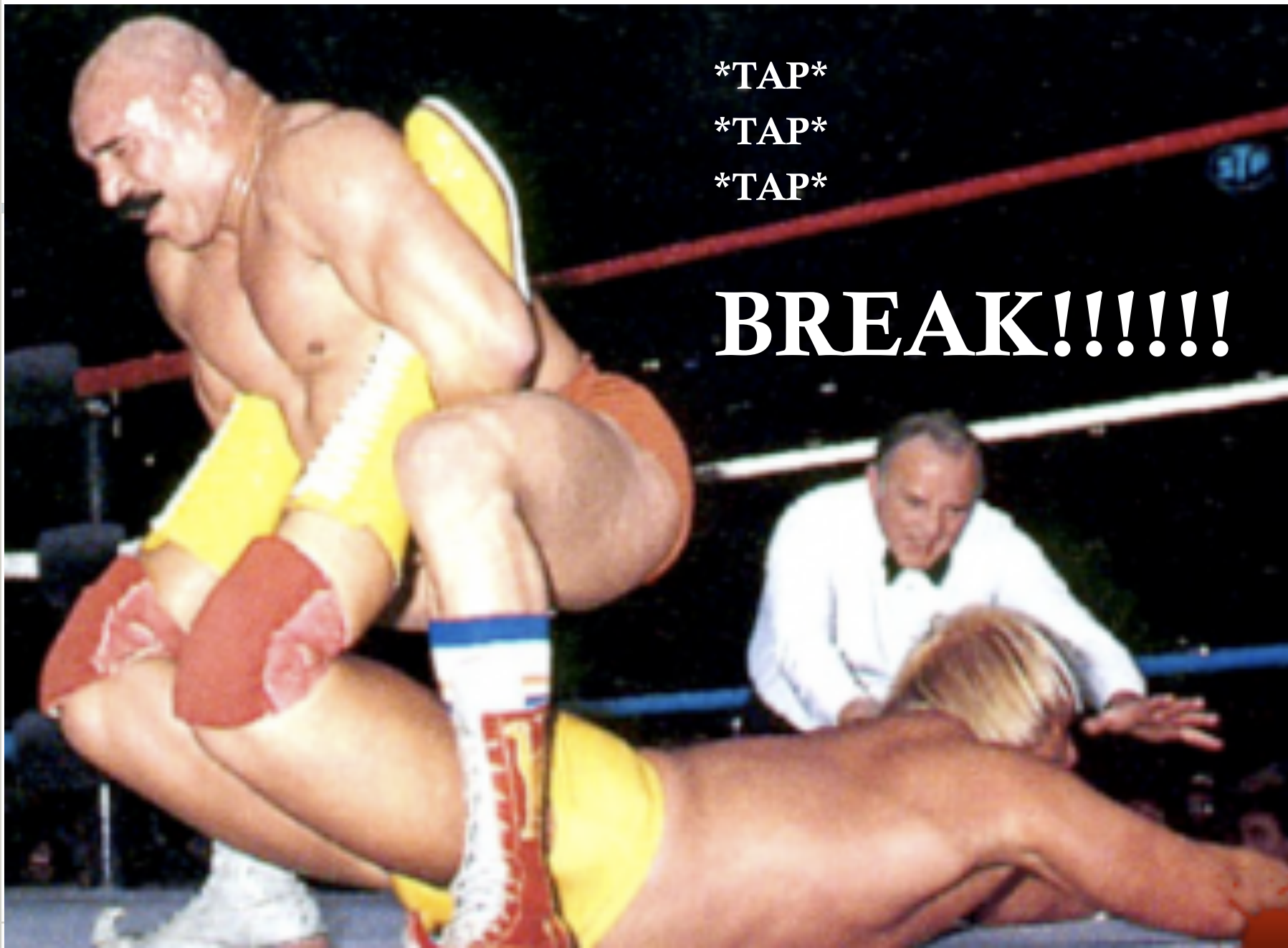


TAP

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BREAK!!!!!!

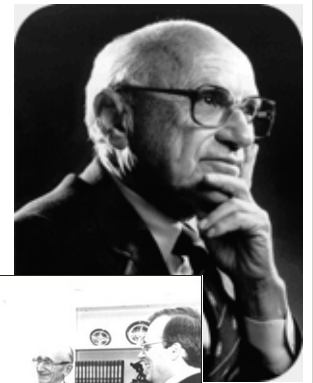


Return of Free-Market discourse: Hayek's challenge to Keynesianism

- Austrian School of neoclassical economic theory
 - Ludwig von Mises (Polanyi's opponent) → Friedrich von Hayek → Milton Friedman
 - Defensive of 'laissez-faire' capitalism (classical liberalism)
 - Thoroughly discredited after collapse of imperialism, Great Depression, World Wars
- Hayek – *The Road to Serfdom* (1944)
 - 'Pure' individualism (libertarianism) vs. social collectivism (socialism)
 - Theory/vision of 'market-based society'
 - Human knowledge always imperfect; attempts at 'social planning' tend toward control
 - 'Spontaneous order' – arises from individual actions within a given community
 - Price mechanism as 'language' of interactions; indicators of large-scale behavioral trends
 - Market as social order: 'imperfect' planning replaced by 'rational' interaction of free individuals empowered w/ market information; minimal government role to enforce basic law & order
- Mont Pelerin Society (1947) – founded in opposition to Bretton Woods
 - Experience of WWII, Cold War: 'Society' & 'Freedom' in question
 - "Difficult to imagine a society in which freedom may be effectively preserved...[without the] diffused power and initiative of private property and the free market" (MPS mission statement)
 - Deeply anti-Communist; affinity & influence w/ Western 'Cold Warriors'
 - International network of *think tanks* becomes cornerstone of ideological offensive against socialism
 - In wake of 1970s crisis: gains popularity, influence (Hayek – Nobel Prize in Economics, 1974)

Return of Free-Market discourse: Milton Friedman & the Chicago School

- 1950: Hayek comes to University of Chicago
 - Individualist economic philosophy encounters & *articulates* with certain political/philosophical currents of American libertarianism
- Chicago School of Economics – Milton Friedman
 - Revival of classical liberalism; ‘monetarist’ economic theory
 - Major work: *Capitalism and Freedom* (1962)
 - Freedom of the market: precondition for social/political freedoms
 - First outlines of a ‘market’ society: privatized school systems, etc
- Rise of ‘quantitative revolution’ in social science
 - John Nash (game-theory mathematician) – Rand Corporation
 - ‘Nash equilibrium’ (1950 Nobel Prize in mathematics)
 - Applied as a theory of society/economic behavior
 - General Equilibrium (Debreu-Arrow) model of economics
- Intersection with Cold War geopolitics
 - Political articulation of an ‘answer’ to Communism
 - Embraced by conservative parties in US/UK (*In reader:Harvey)



Neoliberalism's Cold War roots: 'Game theory' & Chicago School economics

FILM:

“The Trap: What Happened to Our Idea of Freedom”

BBC (2007) | directed by Adam Curtis

Episode 1 – ‘F**k You Buddy’:
John Nash, Game Theory and its influence on neoliberal discourse

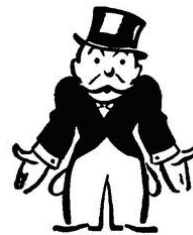
<https://vimeo.com/91091359>

Neoliberalism as project to restore class power?

1970s as a 'Crisis' for the 1% (sort of)

Keynesianism = redistributive policy

- Lesson of 1929 crash, Great Depression (Keynesian view): danger of excessive surplus, inequality, underconsumption
- Demand-side stimulus = redistribute wealth via welfare-state, social policy
 - Progressive taxation: Rich pay higher % of income
 - Social safety net: welfare, social security/pensions, minimum wage, public housing, nat'l healthcare (in some countries)



Top 1% - share of wealth in decline

(*In reader: Harvey)

Erosion of power,
social influence

AT HOME:

- 1960s youth rebellions
- Social movements
- Strong unions
- Anti-war/imperialism

ABROAD:

- National Liberation
- Developmentalism
- Nationalization
- Cost of Interventions

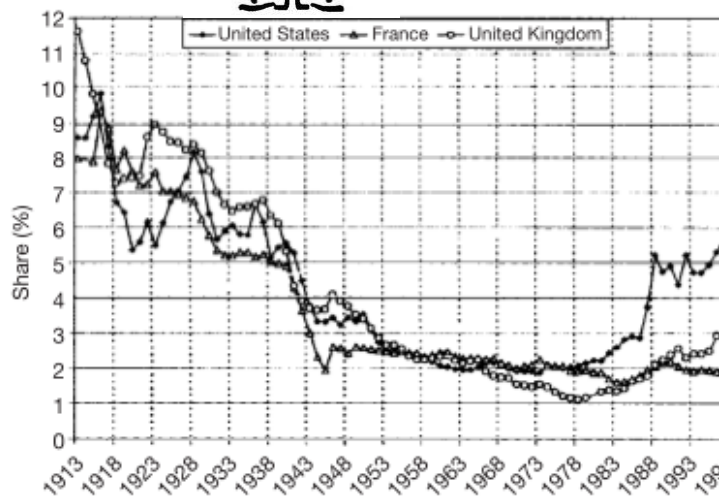


Figure 1.3 The restoration of class power: share in national income of the top 0.1% of the population, US, Britain, and France, 1913–1998

Source: Task Force on Inequality and American Democracy, *American Democracy in an Age of Rising Inequality*.

The Great Economic Debate of the 20th Century: Revisited

	(Official) Marxist	Heterodox (Keynes et al)	Neoclassical/Neoliberal
<i>Theoretical foundations</i>	Historical materialism (economic determinism; historical class dynamics)	Macroeconomics (holistic view of political economy as a social & juridical system)	Microeconomics (individual rational choice; market exchange as 'natural' human phenomenon)
<i>Theory of value and money</i>	Labor theory of value; Surplus value (profit) derives from exploitation	Chartalism (recently: MMT/modern monetary theory): key role of state/law in setting prices, currency (& its value)	Monetarism: Quantity theory of money (QTM) relates \$ supply to inflation; price=relative scarcity)
<i>Role of the state</i>	State-owned industries; Central planning (command economy)	State-managed capitalism (controls on speculation; welfare state; demand mgmt)	1) Withdrawal of state from econ (laissez-faire; privatization) 2) Active state restructuring in favor of class project (<i>Harvey</i>)
<i>Theory of crisis</i>	Inherent tendency to crisis; Capital overaccumulation/underconsumption (<i>Harvey</i>); Class struggle (wage squeeze)	Inherent tendency to crisis; Overproduction + lack of agg. demand (under-consumption); Liquidity trap	Equilibrium model – crises reflect 'market failures' due to imperfect info, government distortions; excessive power of labor unions
<i>Responses to economic crises</i>	Get rid of capitalism; put social production under <i>workers' (state) control</i>	Counter-cyclical policy: deficit spending on infrastructure, jobs (demand-side stimulus): <i>put \$ in hands of consumers</i>	Tighten money supply thru fiscal policy (austerity) + supply-side stimulus thru financial incentives: <i>put \$ in hands of investors</i>

The Great Economic Debate:

Comparing the major discourses

	(Official) Marxist	Heterodox (Keynes et al)	Neoclassical/Neoliberal
<i>Implied norms</i>	Class exploitation & class struggle; anti-capitalist	'Embedded' liberalism (capitalism works if socially/ institutionally managed)	'Spontaneous order' arising from self-interested interactions; markets & individual freedom
<i>Implicit values</i>	Social collectivism (various forms; utopian & sociocultural articulations)	'Positive' liberty guaranteed thru 'fairness' in social policy (FDR: 'Four Freedoms')	'Negative' liberty/individualism (freedom from constraint; in extreme form: Social Darwinism)
<i>Subjectivity (point of view)</i>	Workers/peasants/other exploited social groups; Communist political parties (various contexts)	'Society' (democratic political-economic unit– generally a nation-state); recent regional variants (Syriza – 'good euro')	'Rational individual' or " <i>homo economicus</i> " (abstract conceptual model of atomized 'free individual' pursuing maximum benefit/profit)
<i>Internal logic</i>	Dialectical oppositions; historical class conflict; Bureaucratic state mgmt	Various—generally 'pragmatist' statistics/technocratic mgmt; developmental state	Market logic; numerical valuation (commodification) of social goods/services; law of supply & demand; econ/behavioral models
<i>Political/class affinities</i>	Leftist labor unions; radical intellectuals; Third World peasant mvmts; Communist International	Intellectuals; counter-cultural movements; labor unions/ NGOs; (some) pro-capitalist social democratic parties	Business/investors/financial firms; technocratic managerial class; libertarian/conservative political parties & think tanks