AP/POLS 1090 3.0M

Winter 2017

Professor Bruce Smardon

Introduction to Business, Government and Society

Answer One Essay Question

1) Discuss the key elements of the capitalist production process. What are the key stages of capitalist production? How is the final stage of the process (the movement from C-M') dependent on market demand? Discuss how the development of Keynesianism after 1945 provided a means of supporting this final stage of capitalist production. In your answer, discuss the instabilities of the Great Depression in the 1930s in the advanced capitalist economies, and how Keynesian thinking was designed to avoid a repeat of those problems. How and why was this thinking denied in the movement to neoliberal globalization starting in the 1970s?

2) Discuss the break that occurred with the movement from what McMichael calls "the development project" to what McMichael calls "the globalization project." Specifically, address how the process shifted from an ideal of nationally-centred development to an ideal of international competitiveness in a global economy. What global trends in the area of production, trade and finance underpinned this shift? How did these trends reflect new definitions by international organizations, such as the International Monetary (IMF) and the World Bank, of the goals and objectives of international development?

Due Date:	March 28, 2017
Hand-In Location:	In Tutorial
Length:	8-10 typewritten, double-spaced pages
Sources:	Course Material and Minimum of Three Outside Sources
Essay Value:	30%

Sebastian Amaya

Professor Smardon

Introduction to Business, Government and Society

27 March 2017

A Brief Examination of the Shifting Economic Policies in the Advanced Economies (particularly in Canada's) from the 1930's to the 1970's

This essay will serve to give an overview of the capitalist production process and how the shift towards a Keynesian-based structure in the advanced economies, after the end of the Second World War, helped to sustain this process. Afterwards, this essay will dissect the issues that led to the Great Depression in the 1930's, and how Keynesian economics was introduced to stimulate the advanced economies in a manner in which the Orthodox policies of the past failed to do so. Thereupon, this essay will describe the causes of the shift towards neoliberal economic policies in the advanced economies that began in the early 1970's, when Keynesian policies started to severely falter.

Capitalists' sole motivation is the accumulation of increased profits, and the way in which these profits can be obtained is well elucidated through the capitalist cycle of production. This cycle is a relationship between several things including money, production, labour power, means of production, commodities, and ultimately profit. Money serves many purposes including acting as a store of value and a "standardized means of exchange" (Robbins, 1). Labour power is the effort involved in transforming in "one type of commodity into another" (Robbins, 1). Means of production is the devices and land used by the labour power to produce commodities, and production itself is the combination of labour power and means of production (Robbins, 1). There are two kinds of commodities: capital goods and consumer goods. Capital goods, i.e. means of production, "are used to produce consumer goods" (Robbins, 1). Profit is the money left over for the capitalists after all the costs involved in the capitalist production process have been taken into account. This process basically involves capitalists investing money to purchase commodities (capital goods) which are then used to create a different commodity (consumer goods) through production (labour power plus means of production), which ultimately is sold on the market to make a profit. Part of the profit may then be reinvested to purchase more capital goods and create more commodities, which will generate further profits, etc. The crucial variable that enables the maximization of profits is costs, and this is why companies are always striving to cut costs either by improving the efficiency of production or by reducing labour's wages. As previously stated, capitalism is motivated entirely by the maximization of profits and nothing else. "The capitalist production process is very much a money-making game: investors and manufacturers put money in at one end of the production process and get more money out of the other end in the form of profits" (Robbins, 4). One issue in the cycle is that there must be a constant level of aggregate demand for the commodity the capitalist is selling on the market--for if the demand disappears, so do the profits. The consumer good, C', must have a strong market demand for the profit, M', to be high. If people suddenly lose interest in a specific commodity, then they will stop buying that good and that good's market will suffer. Aggregate demand diminishes for several reasons in an economy: it may drop because of trends that in a certain instance favour one commodity over another; however, the most common reason for low aggregate demand is a faltering economy where the unemployment rate is high and steady income is precarious, which leads to a tightening on consumption and therefore lower demand for consumer goods.

The Great Depression in the 1930's was a direct result of the stock market crash of 1929, coupled with the subsequent closures of countless banks and an enormous unemployment rate. In the years during and preceding The Great Depression, the advanced economies of the world practiced Orthodox economic policies, which involved a laissez-faire style attitude to the economy, which comprised of leaving the natural forces of supply and demand to dictate the state of the markets, with little to no government intervention. The culmination of the First World War in 1918 created a "post-war boom (which) was initially based on the generalisation of ‘Fordist’ methods of mass production of consumer goods, and the associated steel, power and machine tool industries”. (Clarke, 168) This post-war boom generated a very high level of business confidence in the 1920’s, which led to people investing a lot of money into businesses and stocks. The problem was that the level of confidence did not mirror the actual state of the economy, which caused a speculative bubble to occur. What this meant was that people would pour large amounts of money into stocks, assuming that the stocks’ value would continue to increase at it had been previously doing; however, this was not the case. Eventually the price of the stocks peaked and began to drop; investors noted this occurrence and started to dump all their shares of their stocks, which then caused the rapid devaluation of all these stocks. This trend continued to exhibit itself throughout countless stocks in the stock market, subsequently leading to the crash of the stock market. Since people had borrowed such exorbitant amounts of capital to invest in stocks they could not afford before the crash, once the crash occurred these borrowers were unable to pay back their loans, which led to the bankruptcies of innumerable banks. These banks had held people’s life savings, which were now completely lost, leaving people in ruins. The few banks that did survive the crash developed tighter policies for handing out loans, which meant that investment decreased and the amount of disposable income in the economy also decreased. This development led to a massive reduction in aggregate demand, which meant that people were spending less money on consumer goods, which in turn meant losses for businesses. The decline in aggregate demand meant that businesses now had to cut labour costs by firing workers, which caused a significant uptick in the unemployment rate, which subsequently led to workers having less disposable income to buy goods, which led to the continuation of this fatal cycle. Throughout the years following the Great Depression, the economies of the first world struggled to recuperate, with the laissez-faire approach unable to stimulate any sort of growth. According to John Maynard Keynes, a prominent economist of the era, the issue was that “capitalism was incapable of saving itself, and that government did too little to rescue an intellectually bankrupt market system from the consequences of its own folly”. (Rothbard, 14) In essence, to save the economy, government intervention would be needed, as well a whole revamping of the government’s economic policies.

The Second World War began a decade after the stock market crash that led to the Great Depression, and at this point the Allied economies began to improve due to the economic stimulation brought about by promoting the war effort. The war ended in 1945, and therein doubts developed that there would be enough jobs to maintain the rising standards of the economy without the jobs previously demanded by the war effort. These potentially high unemployment levels could lead to another severe recession, so the advanced economies decided to adopt a new economic policy known as Keynesianism. John Maynard Keynes developed this new set of economic policies that would work to counter the issues of the Orthodox laissez-faire policies of the past. The basic principle of the Keynesian approach to the economy was for the government to invest a lot money in its economy, which would lead to the stimulation and subsequent growth of the economy. The government invested large quantities of money into things such as social welfare programs, retirement pensions, family allowances, and several other projects, and the result was a stimulated economy with much lower levels of unemployment. The main objective of Keynesianism was to maintain high levels of aggregate demand through heavy government spending in the economy, which would in turn maintain levels of full employment. This high level of government expenditures would continually create more jobs, which would lead to higher levels of disposable income for workers, which would create higher levels of aggregate demand and thus to higher levels of consumption, which in turn would lead to the creation of more jobs, and then this positive cycle would develop again. Keynesianism's primary goal of maintaining high aggregate demand leads to higher profits for capitalists, which as previously stated is the final step in the capitalist production process. Keynesianism strove to balance the economy, not the budget, which would inevitably be in deficit due to the ample government spending. Keynesianism managed to harmonize an economic system "that sanctioned a measured degree of government intervention while maintaining market dominance" (Shields & McBride, 25). In essence, Keynesianism was a sound amalgamation of the Orthodox policies of the past with the fresher socialist policies of the 1940's.

Keynesianism was based upon four pillars which were: "investment decision-making power was left in the hands of private enterprise; …it made commitments to pursue policies ensuring high, stable levels of employment and incomes; … for individuals unable to participate fully in the labour market, the state would provide assistance; …support the democratic right of trade unions" (Shields & McBride, 28). By striving to maintain high levels of income and full employment through countercyclical fiscal measures, (Shields & McBride, 25) the policies ensured that the workforce's purchasing power would be maintained even during depressions in the economic cycle, which meant that high aggregate demand and high consumption would remain constant. Furthermore, the government's spending on social welfare programs served to maintain the purchasing power of people from all stratums of life, even those struggling with finances, which in turn would increment consumption levels even further. People who were unemployed would receive benefits/insurance, which ensured them a mild income, even in their current state of financial precariousness. The same would be the case for people who might have otherwise gone bankrupt because of an injury or illness which prevented them from working--this is due to the creation of the "federal Medical Care Act … [whose] end result is …healthcare in Canada [that] is publicly organized and universally available" (Shields & McBride, 32). The development of the "Canada Assistance Plan" which served to provide "welfare and social assistance services…old age pensions…[and] a variety of job creation and training programs" (Shields & McBride, 32) also helped shape Canada's identity as a welfare state. Keynesian policies also aimed to "ensure a more equitable distribution of the national benefits of the economic union" (Shields & McBride, 33) by better distributing federal funds throughout all the provinces in Canada. The Canadian government increased the power of trade unions as well by "guarantee[ing] the right to organize and to bargain collectively … [and] forced employers to recognize unions" (Shields & McBride, 34). The heightened strength of the unions ensured the stability of more workers' jobs, which in turn contributed to more stability in the economy and illustrated that "unions could play a positive role in sustaining levels of aggregate demand" (Shields & McBride, 34). In the early 1970's, the economic growth that the advanced economies had experienced throughout the past 3 decades came to a sudden termination. Profits began to decline and companies began to offshore their work to third world countries, where labour would be cheaper, in an effort to cut costs and stay competitive in the market. In addition, technological advancements in the fields of machinery led to greater automation, which also stripped jobs away from locals, thus raising unemployment levels. The increasing levels of unemployment were coupled with an increase in the price levels of the economy as well-a phenomenon which came to be known as stagflation. "The twin evils of recession and inflation stimulated the revival of the neo-liberal policy paradigm" (Shields & McBride, 36). Keynesian policies were effectively abandoned because they could not excuse the reasons for the stagflation; the government's mounting budget deficit also served to push Keynesian policies aside. Another issue with the social welfare state was that it "came to be seen as creating economic blockages

… by insisting that a measure of equity be introduced [in the market], thus subverting pure market outcomes" (Shields & McBride, 37). In essence, Keynesian policies had given labour more leverage, which in turn undermined the capitalists' power over their labour, which cuts into their profits. Lastly, the "phenomenon of globalization… rendered [Keynesian policies] largely ineffective in global financial markets" due to the "creation of larger markets" as well as the increased mobility of financial capital and "the greater global specialization of production" (Shields & McBride, 38). All these factors rendered Keynesian policy obsolete, and paved the way for neoliberal policies that would be more effective in the fresh globalized world of the 1970's.

In the mid 1970's, neoliberal policies took over from the previous Keynesian ones in the advanced economies, now that the post-war economic boom had ended and a new era of globalized trade had begun. This reversal was largely due to "the social and economic dislocations associated with the Vietnam War era and OPEC oil price shocks, which dominated the 1970's" (Palley, 2). Neoliberal economics differed greatly from Keynesian economics in that neoliberalism preached a laissez-faire attitude towards the economy with little government intervention compared to Keynesianism's emphasis on heavy governmental control of the economy. Neoliberalism can be described as a system which "emphasizes the efficiency of market competition, the role of individuals in determining economic outcomes, and distortions associated with government intervention and regulation of markets" (Palley, 1). It stresses how the market must be permitted to balance itself and dictate prices naturally through the forces of supply and demand, with little to no intervention from the government. It affirms that, contrary to Keynesian policy, "[the] factors of production—labor and capital—[must] get paid what they are worth" (Palley, 1).

In regards to the advanced economies in the 1970's, inflation continued to increase at proliferating rates, and the two domestic issues of labour costs and government budget deficits were blamed (McBride, 41). While under Keynesian policy, "the focus rested on increasing wages stemming from the power of labour under a full-employment regime" (McBride, 41), neoliberalist policy asserted that the growing wage numbers were the main reason for the snowballing inflationary numbers. Instead, neoliberalism underscored that enabling the market forces to arrive at their own wage prices was the solution. Another source of blame for increasing inflation numbers was the substantial budget deficit that the Keynesian welfare state had generated, which had led to an "increase in the money supply with no commensurate increase in production" (McBride, 42). The solution for this issue was thus to balance the budget by severely cutting back on government expenditures and "reducing the government's role in the economy" (McBride, 42). Corresponding with neoliberal policy, the government began to emphasize the importance of privatizing work, and "in the space of a decade…Canada had … [gone] from helping people find work and improving economic conditions… to a simple routine of cost-saving" (McBride, 50). The government heavily curtailed its spending on social welfare programs as well, all in the name of remaining competitive in the global markets, which functioned to increase the disparity between the rich and the poor that the Keynesian welfare state had worked so hard to abolish. In essence, neoliberalist policies--while more cost-efficient and competitive than Keynesian policies--worked to promote free-market ideologies, which by nature do not serve the needs of the majority of the population nearly as well as Keynesian policies did.

The advanced economies have struggled to find an economic system capable of controlling inflation while maintaining economic growth, and throughout this precarious endeavour have implemented Orthodox, Keynesian and finally neoliberal economic policies in hopes of finding a suitable economic system. During and before the years of the Great Depression, the advanced economies had been utilizing Orthodox economic policies, which were geared toward laissez-faire doctrines. After the culmination of WWII in 1945, the advanced economies were doing poorly, and decided that a change was needed to help stimulate their economies and promote substantial economic growth. They shifted their economic policies to Keynesian measures, which preached a philosophy of heavy government spending in the economy to assure high levels of aggregate demand and full employment. In the 30 years following this paradigm shift, the advanced economies experienced an economic boom which resulted in greater prosperity for their populations. In 1975, a phenomenon called stagflation occurred for various reasons, which incurred high inflation rates coupled with a decline in economic growth. To combat this issue, the advanced economies once again switched their economic policy—this time the shift was to neoliberalist policy. The sudden insurgence of globalization into the worldwide market sparked the advanced economies' decision to shift towards neoliberal policies, for in order to stay competitive in the new globalized market, Keynesian economic measures were no longer considered to be sustainable. The neoliberalist policies preached free-market doctrines similar to the Orthodox policies of the 1930's, asserting that minimalist government intervention in the economy was the key to advancement in the modern globalized environment. The neoliberalist policies managed to counter stagflation, but at the expense of the dissolution of the social welfare state and an economy previously geared towards serving the needs of the whole population, not just the capitalists.

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