

From social democracy to market liberalism

or

From the New Deal to the New Right

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Hindsight bias

- Rise of market liberalism. Change was preordained
- Can ‘explain’ retrospectively, but would not have been able to predict it
- Example: Fukuyama, *End of History* (1989)
- Can we predict where it is going now?
- Put ourselves in *their* shoes. Future always opaque.
- Lots going on.
 - Social change: crime, family, education
 - Economic shift: Stagflation
 - Political change: rise of the New Right
 - Vietnam war
 - Religious revival (‘fourth great awakening?’ – Christian, Islamic)
 - All relevant
- *Our* problem will be ‘shift in policy norms’

The Problem: changing policy norms

- Shift in public policy norms
 - From social objectives to economic ones
 - From planning to markets
 - A core shift in USA
 - A global wave, still unfolding
- More specifically, a turning point in the 1970s
 - Why then?
 - Invite you to participate in an investigation
- Policy norms: explain a lot with a little
- Norms: a policy is ‘good’ or ‘bad’
- Good for whom? Good for what?
- Norms are costly. Otherwise indistinguishable from self-interest
- A normative inquiry. Implicitly an ethical inquiry.

What is at stake?

- Change produces losers and gainers
 - Dollar loss/gain
 - Positional loss/gain
 - Emotional loss/gain [*transient*: anger]
 - Existential loss/gain [*enduring*: depression, anxiety]
 - Bodily loss – pain and death
- Gives rise to (re-) distributional conflict

Economic problem

- In micro-economic theory, each agent is a free-standing maximising individual.
- But dependent life-stages are unavoidable:
- Infancy, childhood, motherhood, education, illness, disability, unemployment, old age.
- No ‘product’ to bargain with, sometimes little capacity to calculate.
- Need to transfer resources from ‘producers’ to ‘dependants’

Best solution:

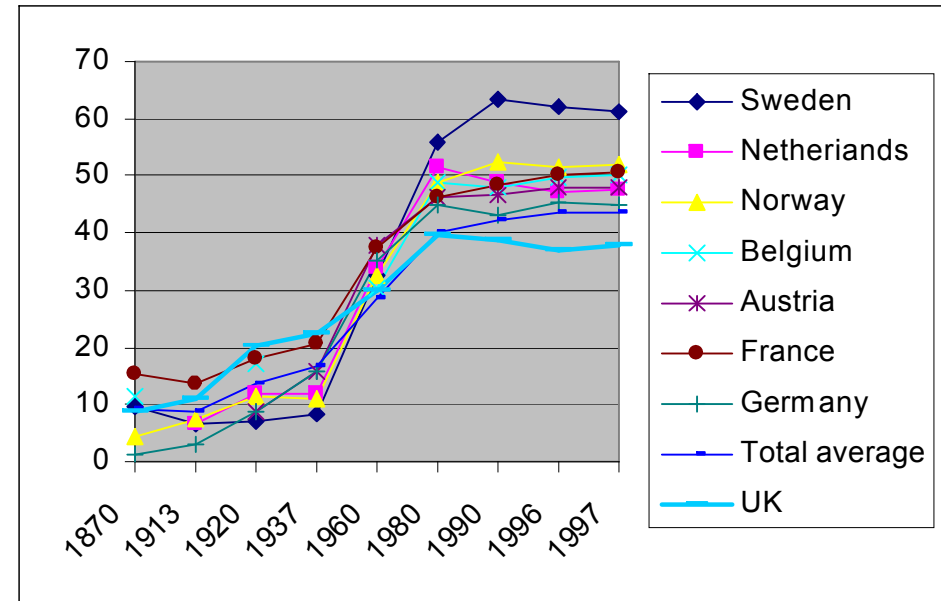
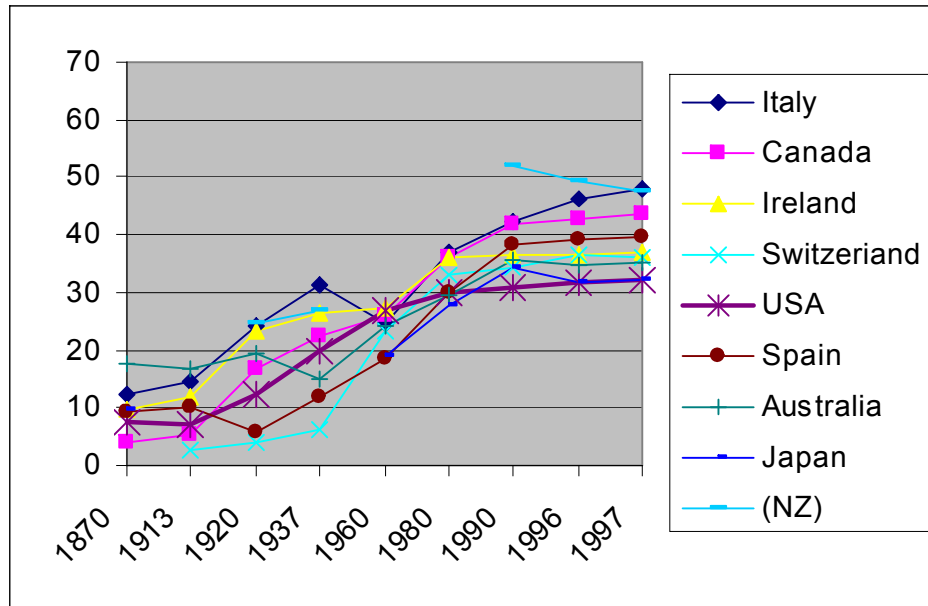
- Be Rich, i.e. exact care without reciprocity.
 - Logically, only a minority can be rich.
 - Inequality ensures that needs of the Rich are taken care of.
 - Rich have done well from social competition –think it is good for everyone else.

Other transfer mechanisms:

- Family
 - Charity [religious/secular]
 - Employer [paternalism]
 - ‘Club’ [voluntary reciprocal association]
 - Fixed capital [land, houses]
 - Financial markets [savings, insurance]
 - Trusteeship [fiduciary]
 - Tort [legal entitlement]
 - Government
 - No transfer [libertarian “self”-reliance]
- All have a role.
 - None can do it alone.
 - Modern dominance of government, finance, real-estate, family.

General Government Expenditure, c. 1870-2000

Low Ranked by spending level, percent of GDP 1980 *High*



Source: Tanzi & Schuknecht, 2000, table III.I

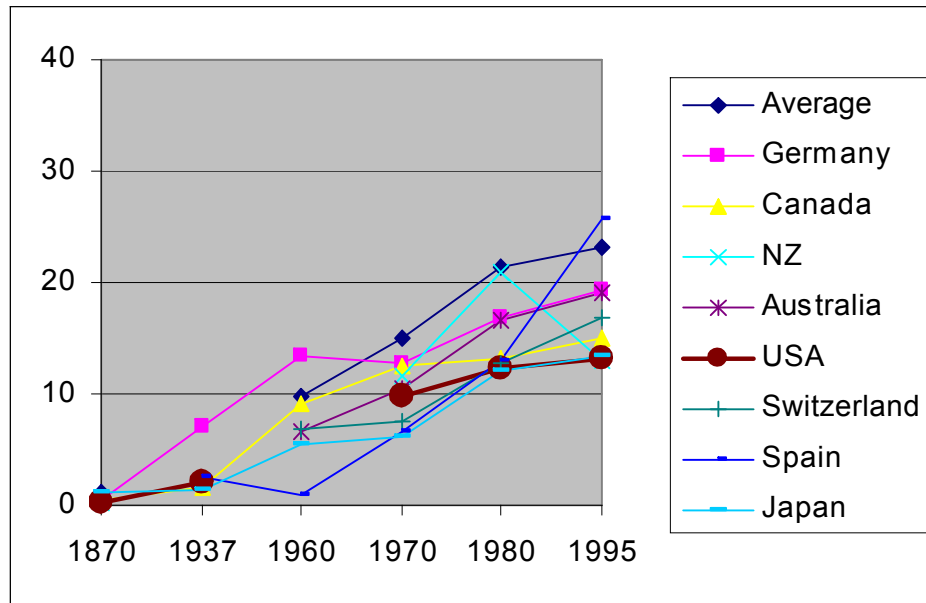
- Innovation follows logistic curve
- Three-Sixfold increase everywhere
- Early starters/low spenders
- Effect of war?
- Growth halted in 1980
- But no decline subsequently

- All countries introduce the innovation and follow logistic trajectory.
- But differ in 'ecology', and 'impatience' which determine penetration level.
- USA falls back from 1980s
- Explanation cannot be unique to a single country. Purely USA explanation not sufficient.

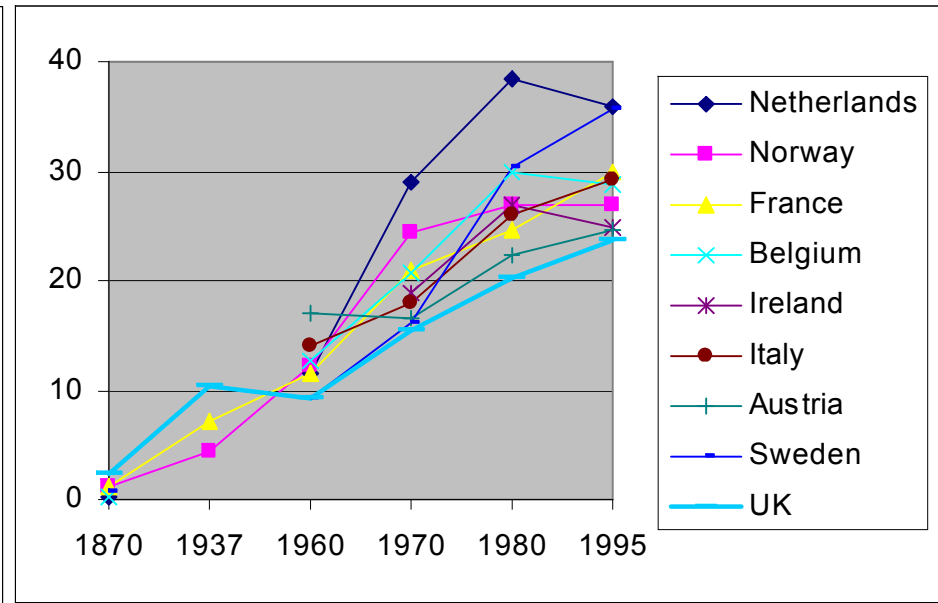
'Welfare' Expenditures

Transfers and Subsidies, c. 1870-1995, percent of GDP, ranked by size in 1970

Low



High



Source: Tanzi & Schuknecht, 2000, table II.4, p. 31

'Three worlds of welfare capitalism'?

1. Anglo-Saxon
2. Continental
3. Scandinavian

- Excludes fiscal subsidies, e.g. Mortgage interest relief, pension tax relief, earned income tax credit

Still expanding in 1995!

An American dilemma

- Policy norms an expression of social/personal norms?
- Ideal of self-reliance. Culturally specific to USA
- In conflict with reality of mutual economic dependence
- Also psychic dependence: 'economy of regard'/'recognition'
- Ideology: 'a doctrine that is resistant to argument and evidence'
- 'Just-world theory': 'everyone gets what they deserve'
- If reality does not match theory, then potential for tragedy
- requires effort to close the gap: cost, coercion, violence
- Tragedy: 'disaster despite/because of good intentions'



Just- World Theories

Table 7.1. Beliefs About Poverty in the United States and Europe

Belief	United States	European Union
Believe that the poor are trapped in poverty	29%	60%
Believe that luck determines income	30%	54%
Believe that the poor are lazy	60%	26%

Source: Authors' calculations from the 1983–97 World Values Survey.

Alesina and Glaeser (2004)

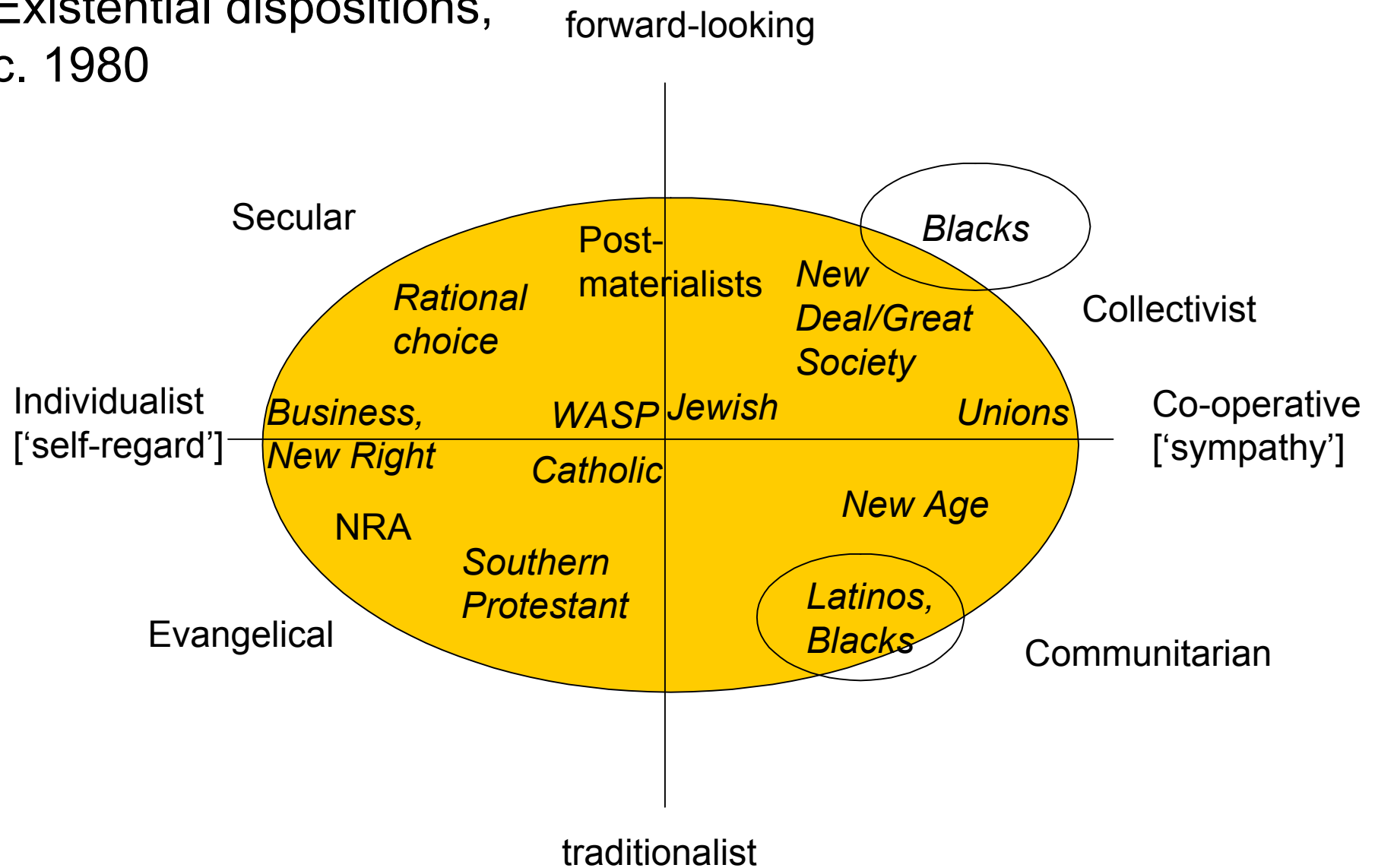
What counts as harm?

- Not *our* norms, *their* norms. View from outside.
- How to evaluate?
- Instrumental efficacy?
- Ethical problem: Impossible to agree on nature of the good. Freedom, fairness, prosperity, virtue?
- Perhaps agree on avoiding the bad? What criterion of harm?
- A parsimonious criterion of harm: does not cause *unwarranted* pain or death
- Hard to disagree with. Focus is on the *warrant*. [the ideology]
- Evaluate *the warrant* for by ethical criterion. Moral intuitions? Impartial spectator? That is what we can argue about usefully.
- Criterion does a lot with a little. Not only in ethics, but also in politics. Arguably, even in economics. Raising the stakes.
- Tragedy: Giordano Bruno: ‘Sanctas Simplicitas’

The Battle of the norms

USA

Existential dispositions,
c. 1980



Rise of Market Liberalism

- Doctrine that free action of market forces provides best solution to individual and social purposes [just-world harmony doctrine]

or

- Leave me alone: self-reliance

or

- ‘No new taxes’: limits to mutual obligation—self-regard
- Norms originate in American crisis
- Spill over to world by means of American institutions
- Why was it so successful?
- Has it run its course?

Four Freedoms

Roosevelt, State of the Union, 1941

- Speech, Worship, **from Want**,
From fear.
- [‘Those who would give up essential liberty to purchase a little temporary safety deserve neither liberty nor safety’]
- Equality of opportunity
- Jobs for those who can work
- Security for those who need it
- Ending special [corporate] privilege
- Civil liberties for all
- Fruits of technology
- Wider and rising standard of living

Norman
Rockwell, 1943

OURS...to fight for



Freedom of Speech



Freedom of Worship



Freedom from Want

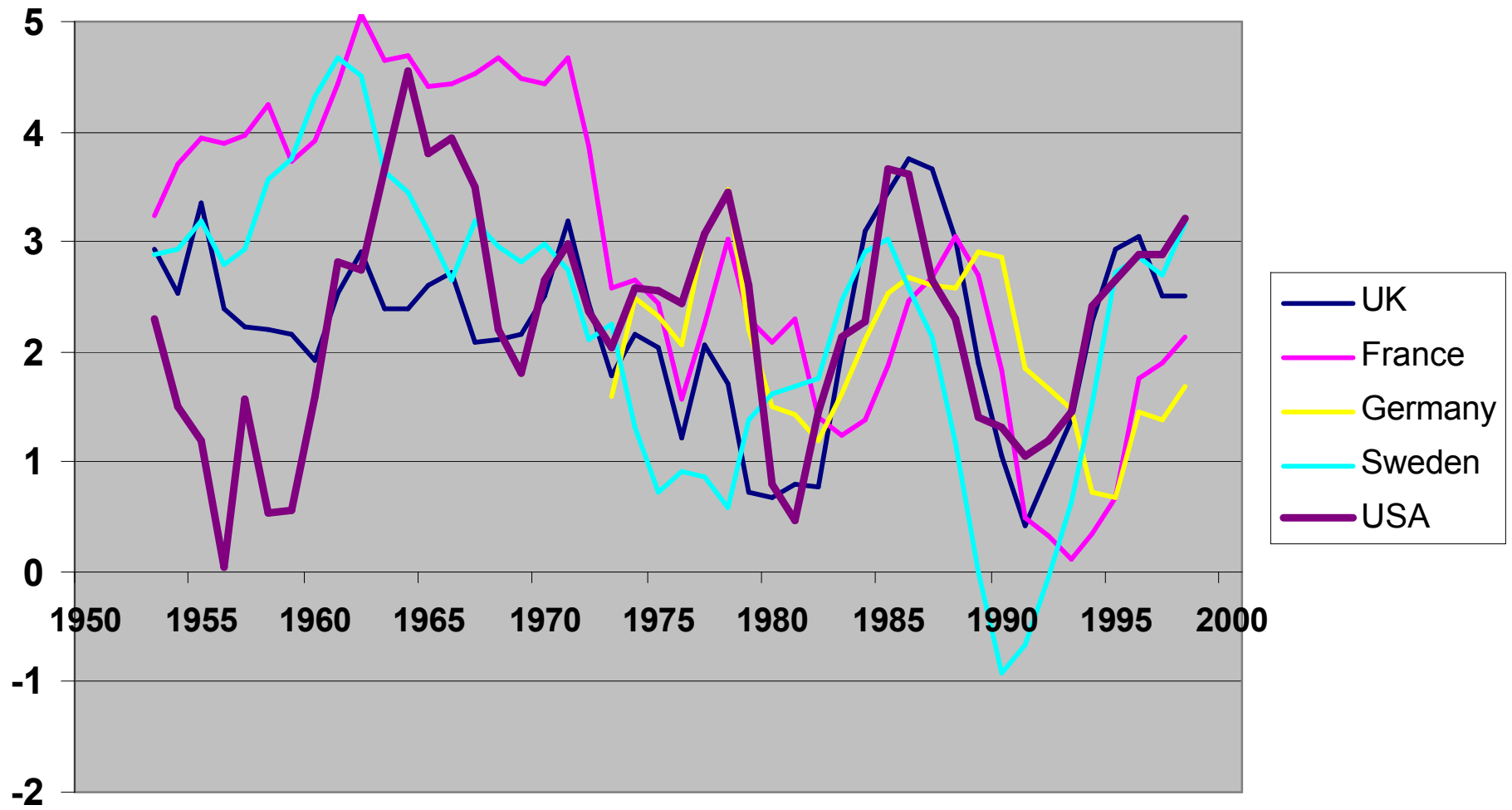


Freedom from Fear

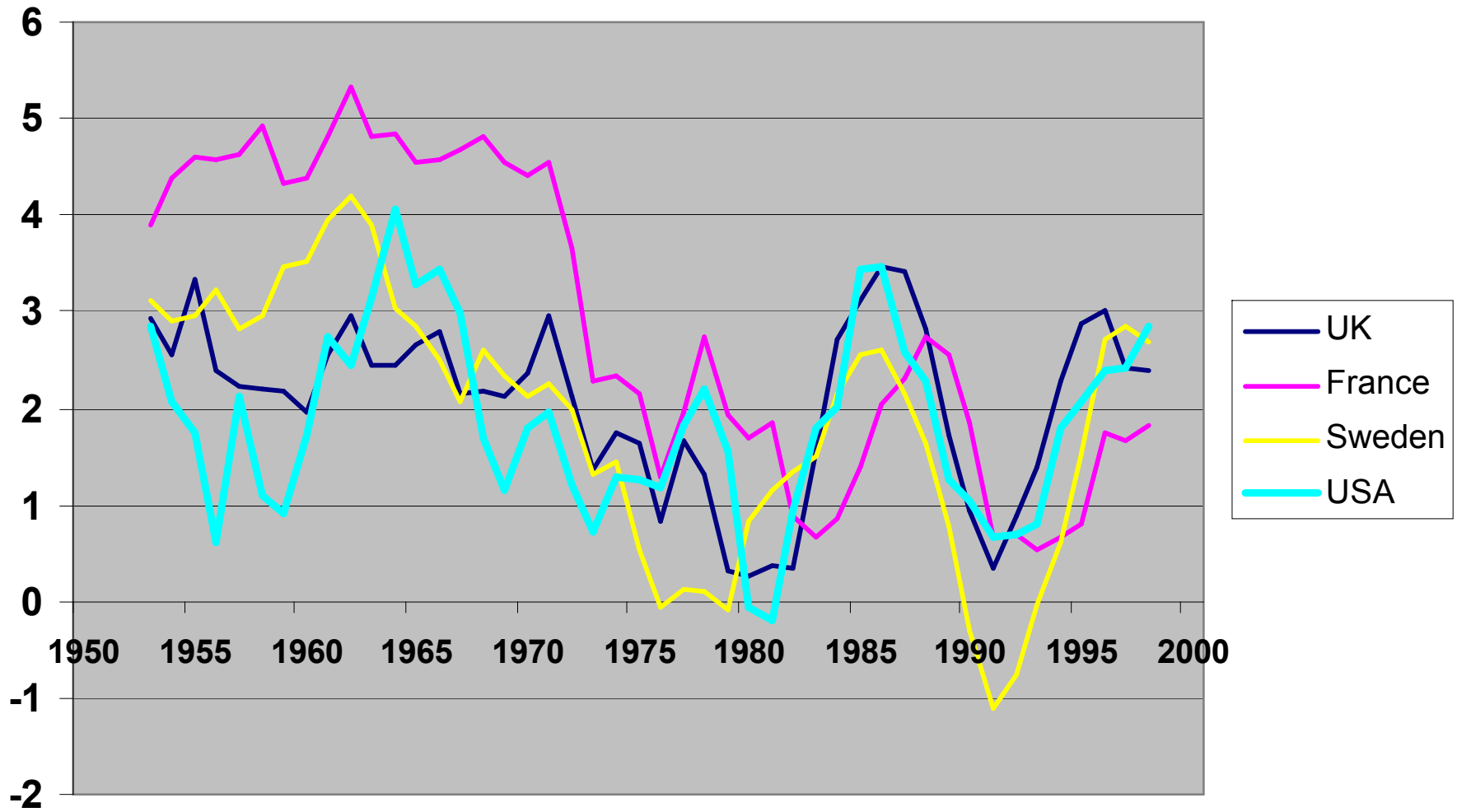
Five Giants

- *William Beveridge, 1943*
 - Giants: Want, Disease, Squalor, Ignorance, Idleness
- Assumptions:
 - Problems systemic not transient
 - Require ‘commitment’ solutions, i.e. long term investment
- "To plan for the **prevention** of individual poverty resulting from those hazards of personal fortune over which individuals have little or no control" (Cmd 6550, 1944, para 1)
- "Freedom from want must be achieved in the first instance by **social insurance** - benefits must be earned by contributions" (Cmd 6550, 1944, para 7)
- ‘Concrete expression is thus given to **the solidarity and unity of the nation**, which in war have been its bulwarks against aggression and in peace will be its guarantees of success in the fight against individual want and mischance" (Cmd 6550, 1944, para 8)’

Real (PPP) GDP per head growth, 5 yr average



Productivity Growth per Worker, 5yr average



Stagflation

Phillips curve tradeoff
no longer works.
Discredits Keynesian fine-tuning. Villains, variously, greedy trade unions, spendthrift governments.

War, oil, management, professionals?

Windfall for borrowers, nightmare for creditors

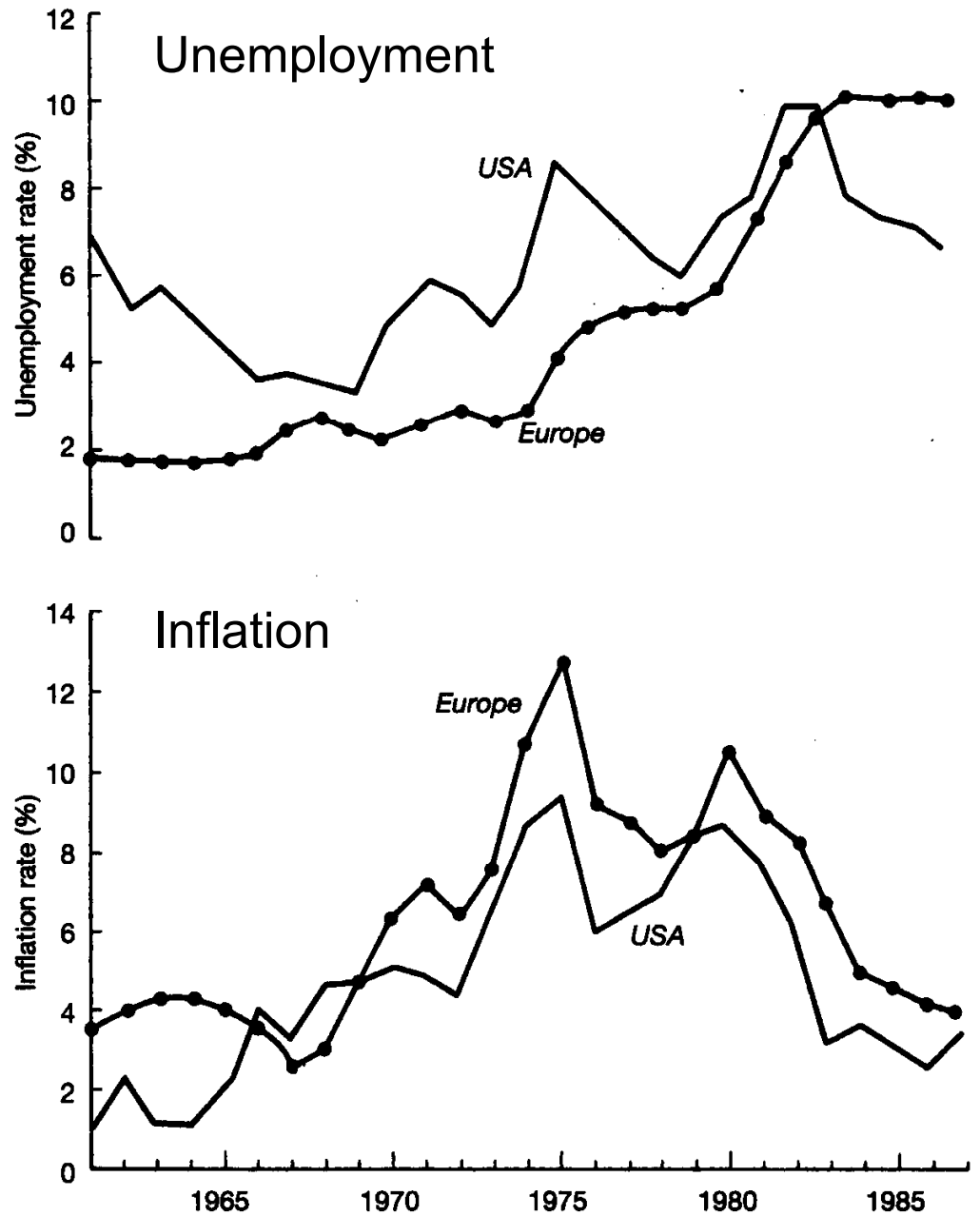
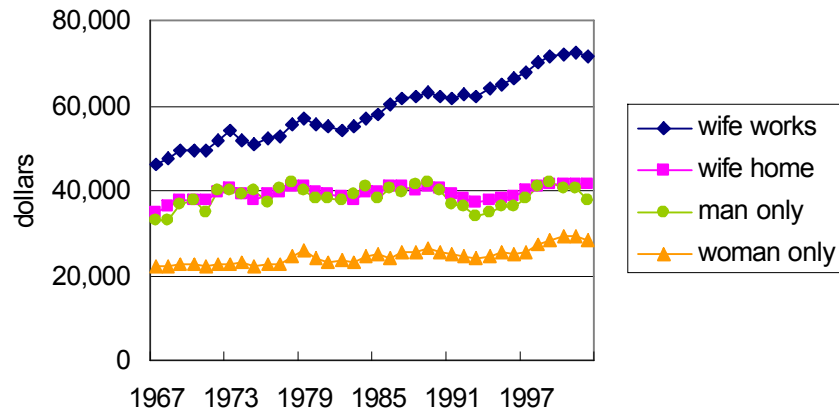


Figure 1.1 The economic crisis of the 1970s: inflation and unemployment in the US and Europe, 1960–1987

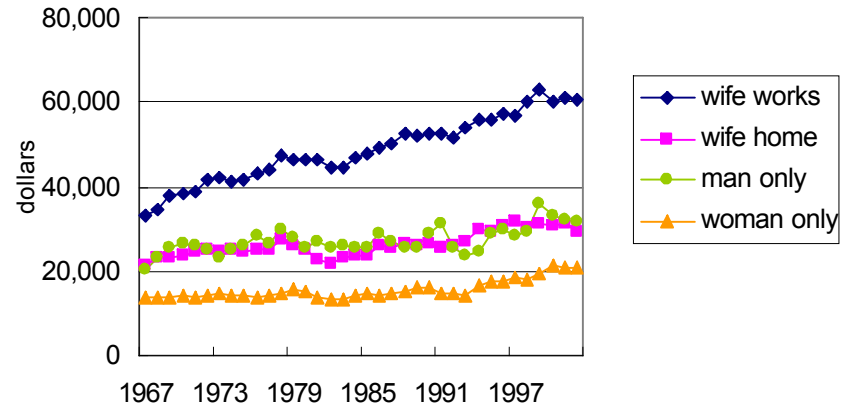
End of the ‘golden age’

- Income shock
- Productivity shock
- Inflation shock
- Unemployment shock
- Earnings shock
- Finally, interest-rate shock
- Trends similar everywhere. American circumstances not unique.
 - Similar policies?
 - Underlying fundamentals? [invisible shocks?]
 - Combination of both?

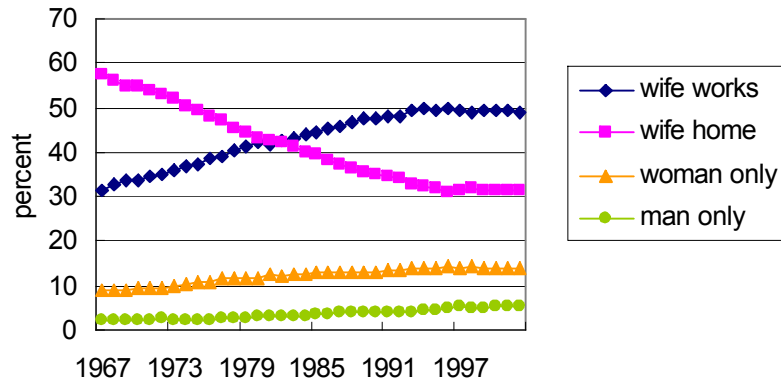
(b) Real Median Family Income, Whites USA



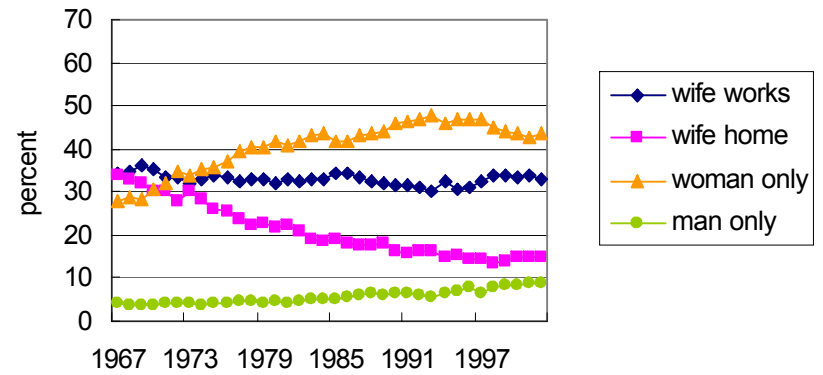
(d) Real Median Family Income, Blacks USA



(a) Family Types, Whites USA



(c) Family Types, Blacks USA



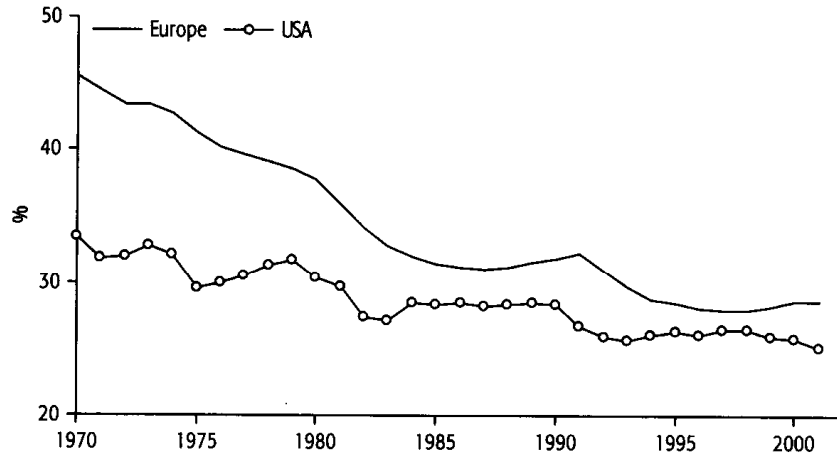


Fig. 5.1. Men's Employment Rate in Industry, 1970-2001

Source: OECD. See Data Appendix.

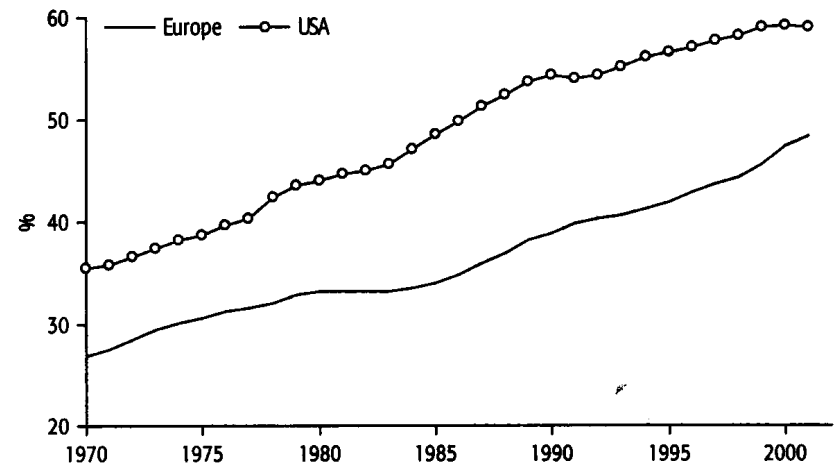


Fig. 5.2. Women's Employment Rate in Services, 1970-2001

Source: OECD. See Data Appendix.

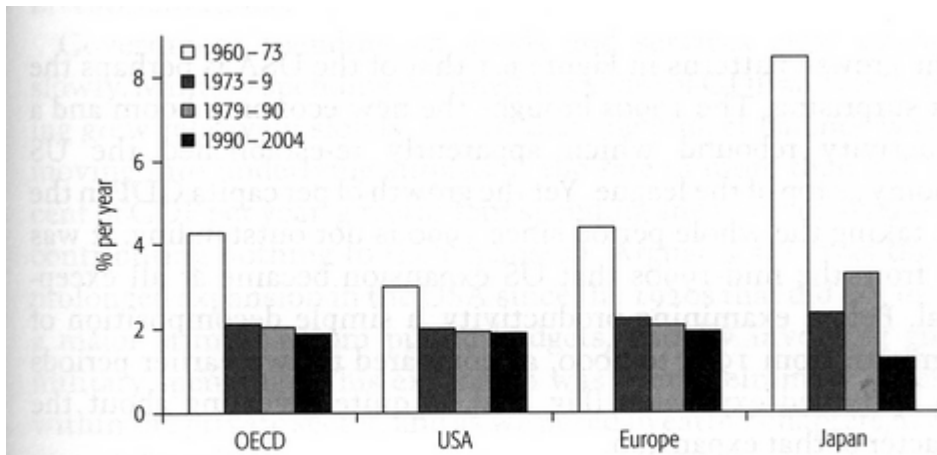


Fig. 6.1. Growth of Output per Head of the Population, 1960-2004

Source: Groningen Growth and Development Centre. See Data Appendix.

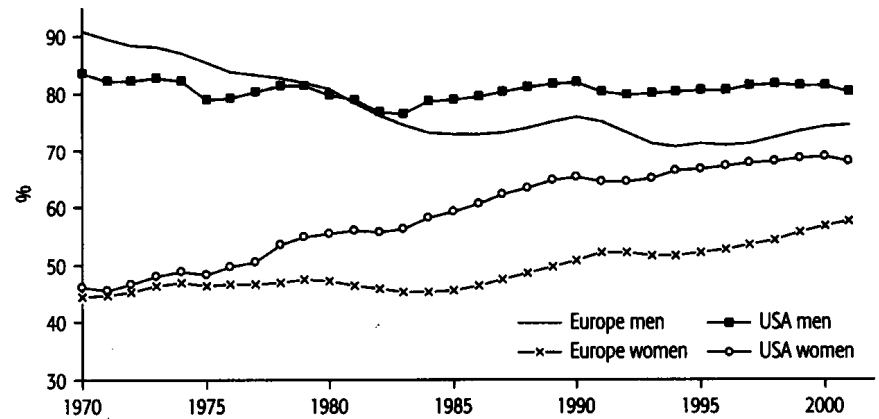
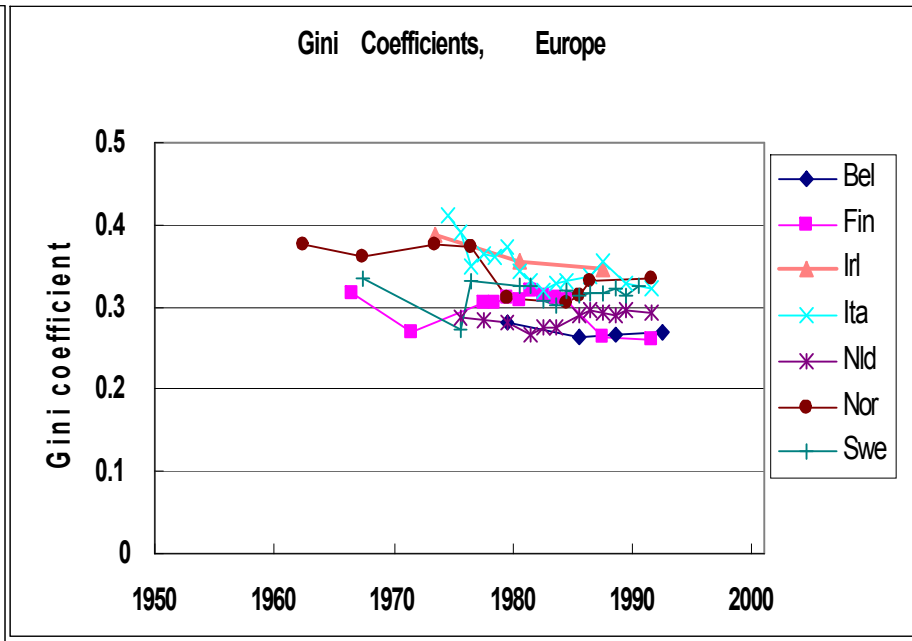
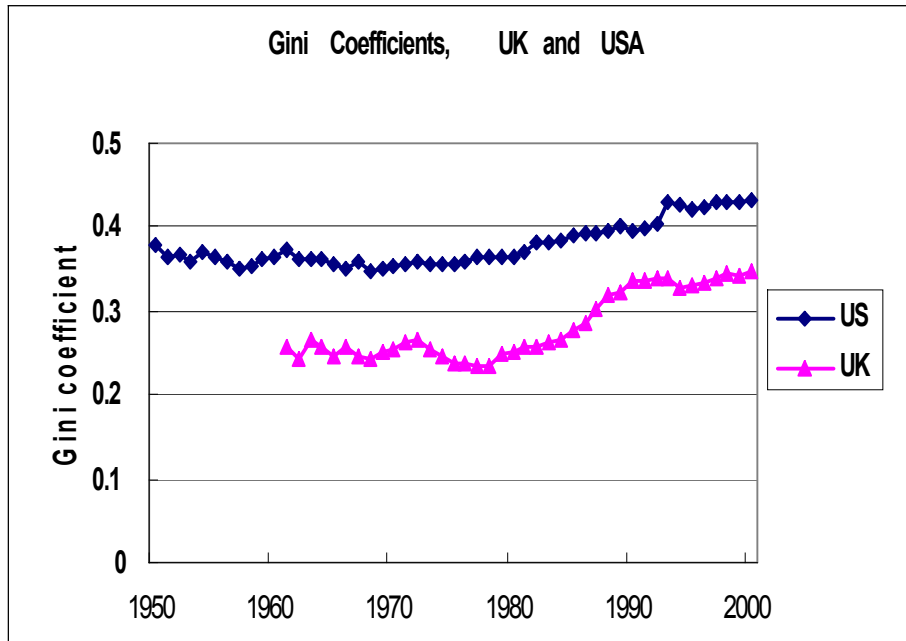


Fig. 5.3. Employment Rates, Men and Women, 1970-2001

Source: OECD. See Data Appendix.

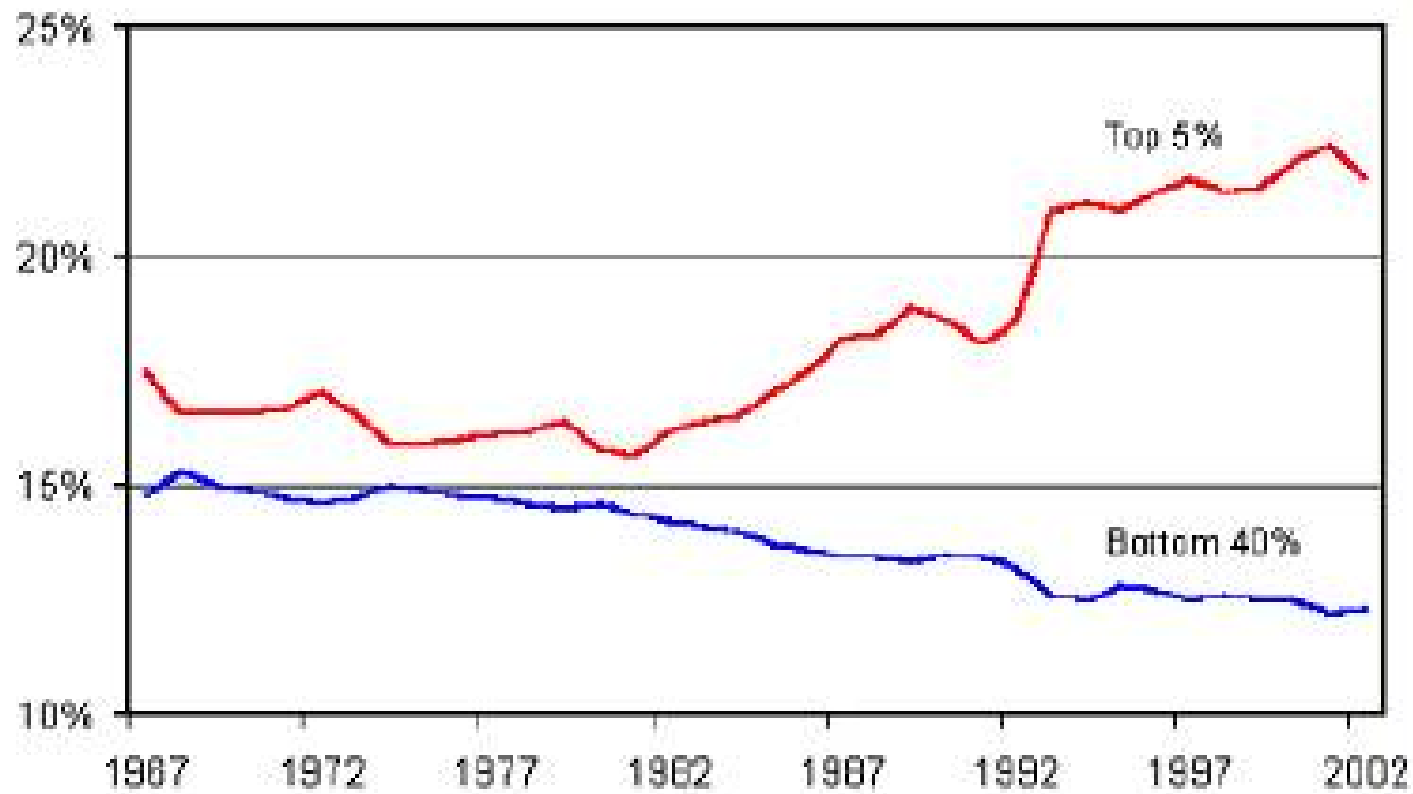
Market-liberal inequality



Offer, 2006

USA

Share of Total Income Received By Top 5% and Bottom 40%



Source: Center for Popular Economics

Top fractiles income shares (including capital gains), 1913-2005

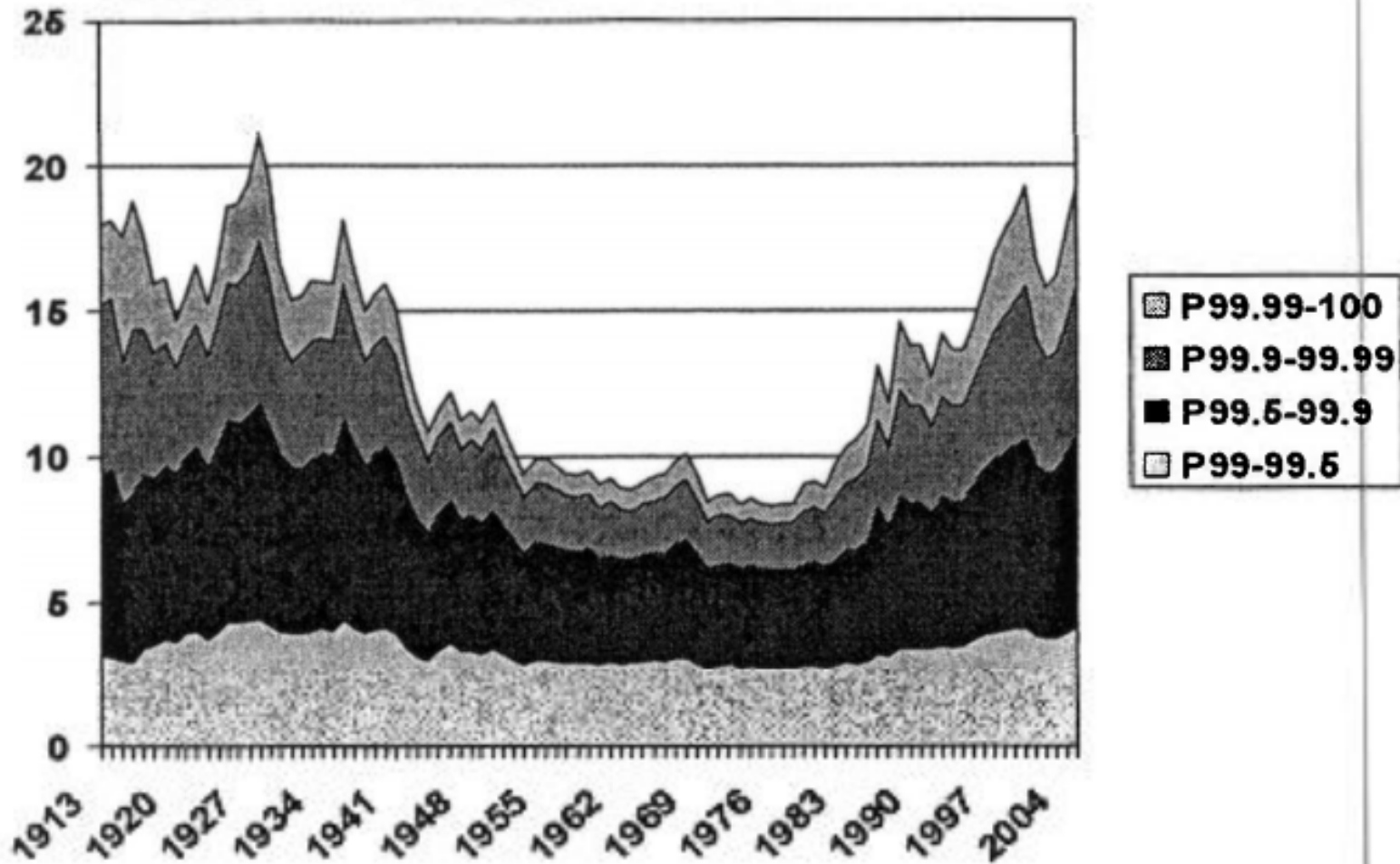


FIGURE 5-1
SHARE OF MARKETABLE NET WORTH
HELD BY TOP PERCENTILE
OF WEALTHHOLDERS:
SWEDEN, UNITED KINGDOM,
UNITED STATES, 1920-1992

Source: Board Of Inland Revenue (United Kingdom).
 Inland Revenue Statistics, 1993 (London: Her Majesty's
 Statistical Office, 1993), Series C, Table 13.5.

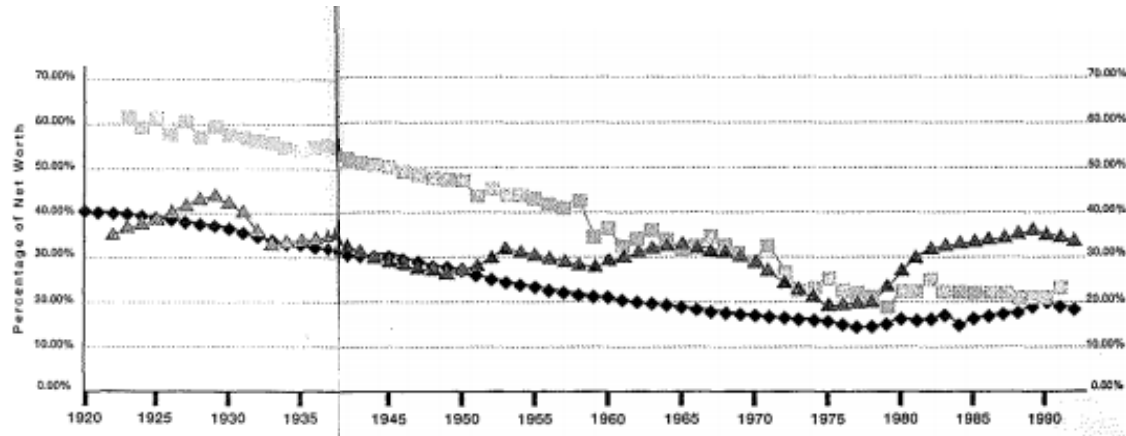


FIGURE 3-1
SHARE OF WEALTH OWNED BY THE TOP 1 PERCENT OF
HOUSEHOLDS IN THE UNITED STATES, 1922-1998

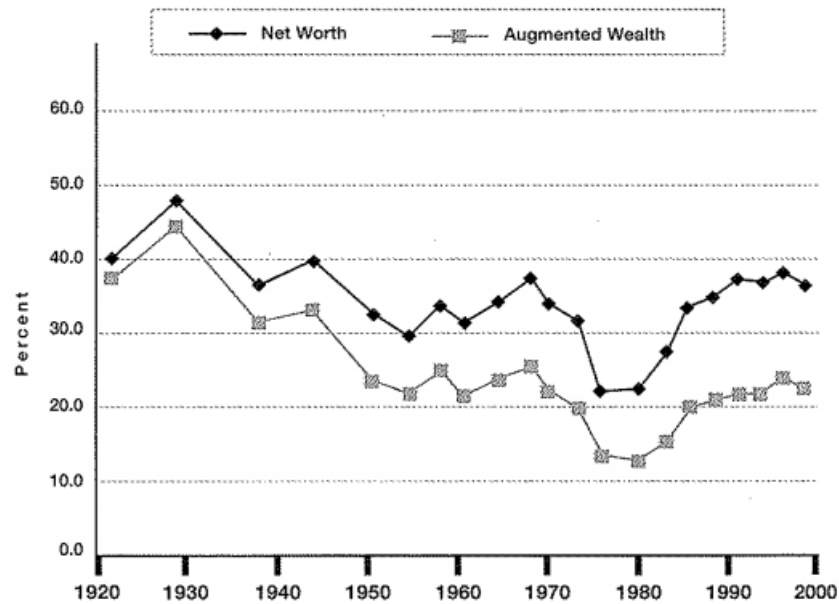


FIGURE 6-1
WEALTH INEQUALITY VERSUS INCOME INEQUALITY
1922-1998



Source: U.S. Bureau of the Census, "Detailed Historical Income and Poverty Tables from the March Current Population Survey, 1947-98," available on the Internet at <http://www.census.gov/hhes/income/histinc>.

Wolff, *Top Heavy* (2002)

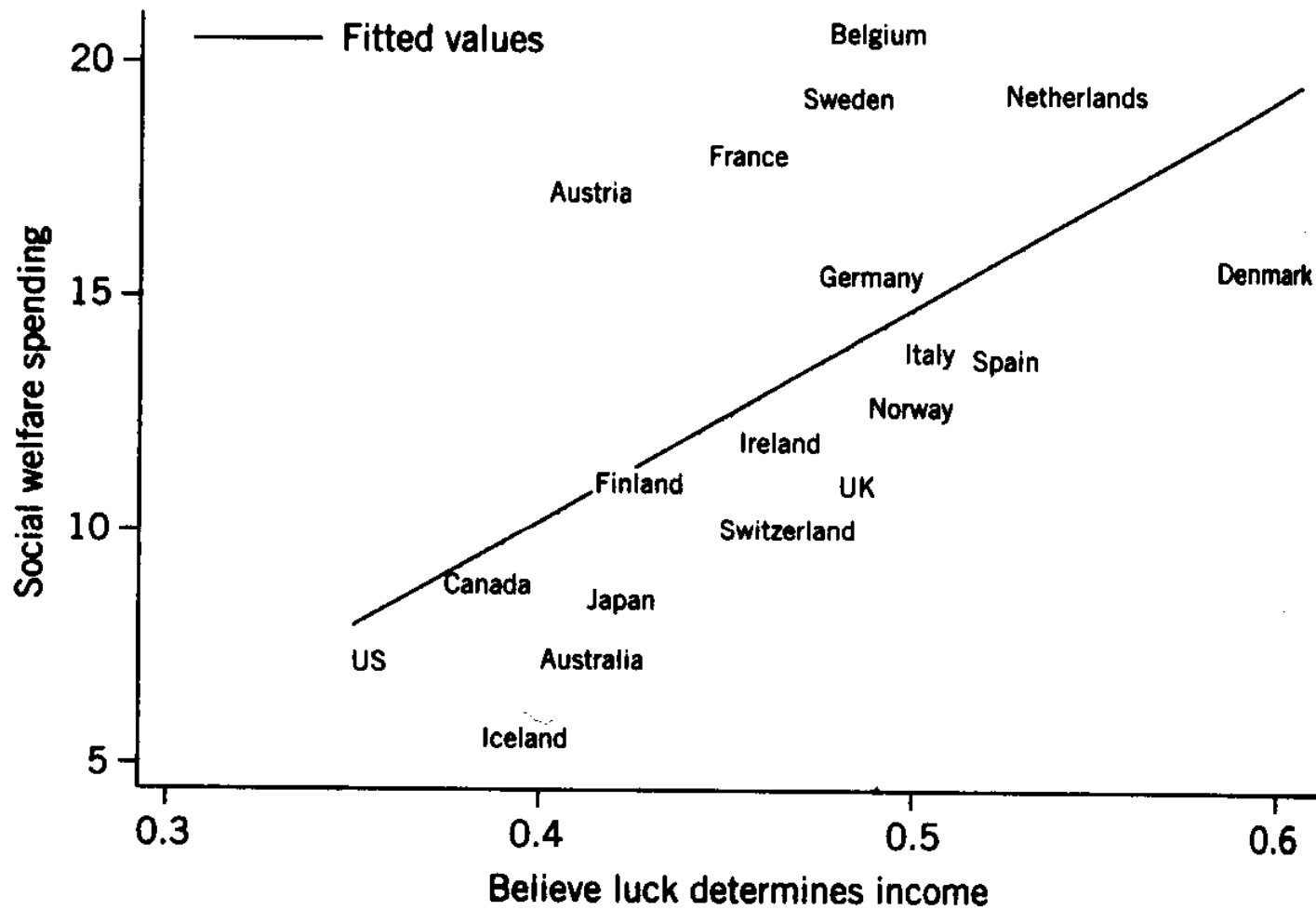


Fig. 7.1. Belief that Luck Determines Income and Welfare Spending

(Source: Calculations from GSS Data.)