

POLS 1090 Lecture 4

Post 1945

After 1945 a new set of international developments which lead to what McMichael calls the development state.

What is the development state?

organizes national economic growth by mobilizing money and people. uses individual and corporate taxes, along with other government revenues such as export taxes and sales taxes, to finance public building of transport systems and to finance state enterprise such as steel works and energy exploration. Forms coalitions to support its policies. State elites regularly use their power to accumulate wealth and influence in the state - whether through selling rights to public resources to cronies or capturing foreign aid distribution channels.

1. State war crucial in mobilizing national resources for the development project.

2. Building of social coalitions behind development project

legitimacy is built through incorporating various social groups into the benefits of development.

development project - based on modernization and industrialization.

Western advanced economies become the model -> for which the various economies in the third world would be modernized and industrialized.

Balanced National Development

-> Had more focus on economic nationalism -> import substitution industrialization -> use of import tariffs to protect domestic (own country) industries.

-> Therefore making project coming from other places in the world, more expensive. Therefore your domestic products would be cheaper and would cause a higher demand for domestic products. I.e promoting industrialization.

Whole set of diverse economies that pursued different strategies for national development.

-> projects set for this... the development state and development project.

Interesting Irony -- US portrayed its role as promoting free market capitalism.

but in fact the approach followed was heavily based on managed capitalism. (involved with Keynesian welfare state)

This period

eventually lead to high levels of growth in the 1950's and 1960's. Although the growth was highly uneven.

The NICS - Brazil, South Korea, Singapore Taiwan -- based on manufactured exports, particularly electronic parts. (wall against communist expansion)

Areas like Africa, parts of South and Central America, Southeast Asia were not heavily affected by large growth rates.

Development project was an idea which was never fully realized in practice.

- Period that lasts from 1945 to particularly 50's and 60's to the 1970's

1970's - CRISIS!

Erodes and undermines the development project

- Historically contingent (dependent on change) aspect to state - business - labour relations.

How does this all FALL APART?

- Advanced capitalist countries -> US, Canada, Western Europe, Japan

in 50's and 60's are engaged in 'golden age' (according to Keynesian welfare state.

-> emphasis is placed on maintaining full employment/high and stable employment.

-> Minimum levels of social security for their domestic or national populations.

Falling apart

- Starting in the latter part of 1960's -> begin to get erosion of profitability, level for business/capital declined.

1. A central reason was over accumulation.

-> has new economies which were reconstructed after the second WW -> Germany, Japan are two major economies.

-> from these major export growth -> challenges American supremacy in world exports.

-> combined with third world development NICS expanding export

-> imports - substitution strategies.

-> Leads to a major increase in world manufacturing capacity.

- > new production facilities that brought on stream render existing production facilities less cost - efficient
- > minimum levels of social security for their domestic or nation populations
- > building pressure on capitalist countries to restructure their economies and close own
- > inefficient industries
- ex. us car industry -> Japanese into us car industry.

- > Systematic problems of over capacity -> declining profitability -> efficiency per unit of output is falling.

- > Conflicts with keynesian welfare state.

- > through the 1970's, states try to maintain employment levels.

- > This is furthered by the response of capitalist to declining profitability in domestic market.

 - > shift production to offshore production sites with lower costs, particularly labour costs -> compensate through keynsian.

 - > measures to maintain domestic employment levels

- This is furthered by the response of capitalists to declining profitability in their domestic markets.

- > finally technological change alters labour requirements -> in areas such as steel production, car production, rubber, metal productions -> downsizing in employment.

- > underlying social forces and the ability of capital to restructure, come up directly against the ability to maintain keynesianism.

- > growing unemployment in the advanced economies

 - > this is combined with growing inflation.

 - > leads to stagflation - stagnant economic growth with inflation.

Why inflation occurred?

- Keynesians leads state to increase spending to counter act rising unemployment.

 - > but this spending leads to a major increase in the money, supply also rising deficits to control

- unemployment -> increase money supply -> increase inflation -> rising demand putting pressures on prices.

OPEC situation -> after Yom Kippur war, boost oil revenues for opec countries by increase prices.

- Major prices hike in major economies which depend on oil imports.

*with this stagflation, Keynesianism loses its creditability.

-> unemployment -> deficiency of aggregate demand

inflation -> excess of aggregate demand.

*Economics profession shifts from a Keynesian consensus to a monetarist one

-> one which returns to a free market analysis of capitalist economies.

-> Changes occurred - Chicago school - Milton Friedman argues that the problems of stagflation arises from a state that is hampering capitalism because it is too large and too intervenes because of the Keynesian welfare state.

Neoliberalism grows out of the critique of the Keynesian welfare state

1. taxes have grown too much to finance state expenditures -> entrepreneurial activity is shared.

2. State deficits "crowd-out" private investment by absorbing savings that would have been invested in the private sector.

Argument assumes full employment economy. Unused money would be invested.

3. Generally restructure the state away from public sector operations.