John Maynard Keynes – interventionist economic policy – based on employment and economic growth. Governments should use macroeconomics tools (interest rates and fiscal policy) to control the economy
Organised the New Deal after the 1929 crash. Promotion of labour unions and large national projects. (NB link between consumer spending and security)
Warned that the world should intervene to help Germany after WW1 (ignored)
After WW2 – organised and chaired Bretton Woods – after WW2 needed to avoid economic collapse which leads to war (Germany after WW1) – hence the Marshall Plan and new economic structure. Ability to stabilise World economies – not just national ones

IMF – short-term loans to countries in need
World Bank – long-term development loans
GATT (WTO) Fair rules of commerce.

All US-based institutions due to Marshall Plan

During the 1950s and 1960s, the success of Keynesian economics was so resounding that almost all capitalist governments adopted its policy recommendations.
"Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone"
"The decadent international but individualistic capitalism in the hands of which we found ourselves after the war is not a success. It is not intelligent. It is not beautiful. It is not just. It is not virtuous. And it doesn't deliver the goods".
Successor – Galbraith "the avoidance of depression and the prevention of unemployment"

vs

Milton Friedman and the Chicago School (Chicago University economics department)
'neoliberalism' – Free Trade. Minimal government. An open market will sort itself out by supply and demand (including labour and labour costs)

After the 2007 crash – Keynesian economics coming back into style (Obama, Brown, Sarkozy...)

BUT – The Chicago School took power in IMF and World Bank and WTO (during the Reagan / Thatcher era) to run things on a neo-liberal style – completely in opposition of its original objectives – and actually created US economic hegemony with disastrous results for the rest of the world.

Friedman - Electro-shock treatment for brain-washing and torture techniques. Friedman used this model for economic shock treatment - 'all at once – no time for unions etc to react'. Best after an economic crisis or natural disaster.

In the 50s and 60s – four models:

Communist model (USSR) - state-controlled economy
Keynesian model (modern capitalist countries) state intervention in a capitalist system for social and economic well-being
Development model (developing countries) - inward-oriented industrialised strategy with protection of trade. State-owned resources such as oil, mining, and key industries.

Neoliberal model (not in use until later) – minimum state intervention, free-trade, free access to foreign capital and currency, low social welfare. Also called 'corporatism' since it is what big corporations want.

The Southern Cone (Chile, Argentina, Uruguay, Brazil) used developmentalist practices with enormous success.

1950s – US deliberately opposed developmentalist countries:

1953 - CIA helped overthrow democratically-elected Mossadegh in Iran and put in the Shah

1954 – CIA-sponsored coup in Guatemala (requested by the United Fruit Company). Democratically-elected Arbenz out, United Fruit in.

Friedman wanted to test his theories on a country. Target: Chile. Paid for one hundred Chilean students to go to Chicago University (economics only) to inclucate future leaders with neo-liberal ideas. 1965 expanded to Argentina, Brazil and Mexico. Didn't work.
1970 – Allende voted in on a socialist programme – including nationalisation. Nixon “make the enemy scream” to CIA head.
The Chicago School was havily funded by the Ford Foundation

USA spent 8m$ trying to undermine Allende without success. Finally US sent the Chicago Boys to Chile to support Pinochet in the overthrow of the government and the setting up of Shock Treatment. Pinochet just ended 160 years of democratic rule in Chile.
Rule 1 – terror/ Next few days 13,500 civilians arrested, hundreds executed.
Economy – privatization, sale of national assets, deregulation, cuts to social spending (health, education...)

Result of Chicago neo-liberalism:
1974 – inflation hit 375% (highest rate in the world)
Loss of 177,000 industrial jobs between 1973 and 1983
Creation of massive debt (14bn $) to the IMF and World Bank (much for military spending)

In the first year of Friedman shock therapy – Chile's economy contracted by 15% and unemployment (3% under Allende) reached 20%.

Shock therapy can only be applied by military force and political terror.

Chile has now recovered – but only partially – By 1988 when the economy had recovered (partly due to Codelco – the Chilean mining company) 45% of the population had fallen below the poverty line. The richest 10% saw incomes increase by 83%. In 2007, Chile ranked 8th most unequal country in the world.

Was this appalling result the end of the Chicago School – not at all. Brazil (1973), Uruguay (1973) Argentina (1976).

Argentina, Chile, Uruguay and Brazil – the countries that had been the showcases of developmentalism – were now all run by US-backed military governments and were living laboratories of Chicago School economics.
Thousands were imprisoned, tortured and killed, especially union leaders and 'socialists' (described as 'communists in the US press). In Argentina 90% of state companies were sold under-priced to private companies.

The economic suppression of the peoples of South America led naturally to anti-capitalist, anti-American feeling (leading to a violent refusal of the FTAA proposed by Bush)

Thatcher (a friend of Pinochet) tried to impose neo-liberal theory to the UK economy. From 1979 to 1982 unemployment and inflation had doubled. She tried to break the miners union (but failed). The message seemed to be that radical and highly profitable policies of the Chicago School couldn't survive in a democratic system. Democracy stared growing around the world (Iran, Nicaragua, Ecuador, Peru, Bolivia...)

1982 – Argentina's economy collapsing under the massive debt and corruption. Invaded the Falkland Islands (NB $a=e+h^2$)

Thatcher ignored the United Nations and went to war – changing her approval rating from 25% to 59%. Newly elected she targeted the unions again – especially the miners. 8,000 riot police broke picket lines. Injuries reached the thousands as the strike continued. Army sent in to mine coal. Union broken.

“The more the global economy followed his prescriptions, with floating interest rates, deregulated prices and export-oriented economies, the more crisis-prone the system became, producing more and more of precisely the type of meltdowns he had identified as the only circumstances under which governments would take more of his radical advice. In this way, crisis is built into the Chicago School model. When limitless sums of money are free to travel the globe at great speed, and speculators are able to bet on the value of anything from cocoa to currencies, the result is enormous volatility. And, since free-trade policies encourage poor countries to rely on the export of raw resources such as coffee, copper, oil or wheat, they are particularly vulnerable to getting trapped in a vicious circle of continuing crisis. A sudden drop in the price of coffee sends entire economies into depression, which is the deepened by currency traders who, seeing a country's financial downturn, respond by betting against itrs currency, causing the value to plummet. When soaring interest rates are added, and national debt balloons overnight, you have a recipe for potential economic mayhem.” Naomi Klein.

IMF structural adjustment is the dictatorship of debt.
Crisis opportunism is now the world's guiding logic of the most powerful institutions. It is a fundamental betrayal of their founding principles.

The Worlds Bank and the IMF, financed through contributions from the initial 43 founding members, were given the explicit mandate to prevent future economic shocks and to make a fairer world.

Joseph Stiglitz, former chief economist of the world Bank, “Keynes would be rolling over in his grave if he were to see what has happened to his child”

1970s – Poland – World Bank and IMF let it fail deliberately -(too socialist)
1980s – China – Deng Xiaoping – wants to open the economy to private ownership but without democracy.
1983 – Deng invited Friedman for talks and to teach China's top officials about his neo-liberalist strategies and opened up China to foreign investment, reduced protection for workers and crated a 400,000 strong People's armed police to quash any 'economic crimes' (strikes and protests). The resulting demonstrations such as Tiananmen Square were not against economic reform, but against the type of reform. The party admits to hundreds of dead, eyewitness reports put the number at at 2

to 7 thousand with up to 30,000 injured. 40,000 arrests were subsequently made, mostly workers who presented the most direct threat to capitalism. It was this wave of reform (with entry into the WTO) that turned China into the sweatshop of the world, the preferred location for contract factories for virtually every multinational on the planet.
2006 study – 90% of China's yuan billionaires are the children of communist party officials. It is a mirror of the corporatist state first pioneered in Chile under Pinochet.

Also available for review for Chicago School economies – South Africa, Russia, Trinidad and Tobago (see Budhoo's resignation from the IMF), Mexico, Thailand, Philippins, South Korea.

The Asian Tigers – a model for the world. Highly protectionist. Barred foreigners from owning land and buying national firms. Kept strong public sectors like energy and transport. Built up their own domestic markets. Mixed, managed economies (Keynesian) grew faster and more equitably than neo-liberal ones.
Under pressure from the IMF and WTO – they open their currency to the outside world.
No debt, no inflation, no disaster, but
1996 – 100b$ investment coming in.
1997 – 20b$ going out

Rumour in 1996 that Thailand didn't have enough dollars to back up its currency. False. Banks called in their loans, investors fled, the currency crashed. Domino effect – panic spread to Indonesia, Malaysia, Philippines and South Korea.

The IMF could have stopped the problem from the start by supporting Thailand – its role – but didn't. Crisis creates opportunities. The IMF and World Bank sent out messages – do nothing – don't help Asia. Pelosky (Morgan Stanley Bank) “What we need now in Asia is more bad news. Bad news is needed to keep stimulating the adjustment process”.

The destruction of Asia's managed economy was a process of creating a new American-style economy. China was not affected because it had maintained its controls.

Result of the IMF's final help and restructuring programme:
24m people lost their jobs
South Korea and Indonesian unemployment rates triples in two years.
20m Asians thrown into poverty.
Asia sold off much of its public wealth to foreign companies.

Friedman “I believe globalization did us all a favour by melting down the economies of Thailand, Korea, Malaysia, Indonesia, Mexico, Russia and Brazil in the 1990s, because it laid bare a lot of rotten practices and institutions”

Real track record of free-market economics: inequality, corruption, and environmental degredation when government after government embraced Friedman's advice.

Watch now: US privatisation of areas of public action (education – New Orleans), health, even the military (Iraq, Afghanistan)