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Chapter 1 : What the government should do now: economic growth

Governments may make policy changes in response to economic conditions. Government regulation of the economy is frequently used to engineer economic growth or prevent negative economic.

See Article History Government economic policy, measures by which a government attempts to influence the economy. The national budget generally reflects the economic policy of a government, and it is partly through the budget that the government exercises its three principal methods of establishing control: Over time, there have been considerable changes in emphasis on these different economic functions of the budget. In the 19th century, government finance was primarily concerned with the allocative function. The job of government was to raise revenue as cheaply and efficiently as possible to perform the limited tasks that it could do better than the private sector. As the 20th century began, the distribution function acquired increased significance. Social welfare benefits became important, and many countries introduced graduated tax systems. Once more, allocative issues came to the fore, and stabilization and distribution became less significant in government finance. The allocative function The allocative function in budgeting determines on what government revenue will be spent. Because a high proportion of national income is now devoted to public expenditure, allocation decisions become more significant in political and economic terms. At all times and in all countries the calls for expenditure on specific services or activities, or for more generous transfer payments, will always exceed the amount that can reasonably be raised in taxation or by borrowing. The debate about how these scarce resources should be allocated has continued for hundreds of years, and, although numerous methods of deciding on priorities have emerged, it has never been satisfactorily resolved. In practice, most democracies contain a number of different factions that disagree on the proper allocation of resources and indeed the proper level of public sector involvement in the economy; the frequent change of national governments is related to the constant search for the right answers. Public goods Economists have sought to provide objective criteria for public expenditures through the so-called theory of public goods. It is generally recognized that some goods needed by the public cannot be provided through the private market. Lighthouses are a classic example. The costs of a lighthouse are such that no one shipowner will want to finance it; on the other hand, if a lighthouse is provided for one shipowner, it can be made available to all for no additional cost. Indeed it must be available to all, since there is no practical means of excluding ships from using the facility provided by the lighthouse, even if their owners have refused to pay for it. The only practical method of providing such services is by collective action. If goods are to be provided in this way, rather than through the private market, it is immediately necessary to confront the twin problems of deciding how much to provide and who should pay for that provision. Even if all individuals wanted the service equallyâ€"as, perhaps, with lighthousesâ€"their views on the extent of the service would be influenced by the allocation of the costs. Where different households may have different preferences and some may not want the service at allâ€"as, for example, with defense by nuclear weaponsâ€"these difficulties are compounded. Economists have tried to devise abstract voting schemes that would reconcile these difficulties, but these appear to have little practical application. Moreover, others would challenge this whole approach to the problem. It would be absurd to say that the consumer has a taste for national defense and that it is the job of the government to satisfy it. The task of national leaders is to evolve a defense policy and persuade the public to accept it. Similarly, conservationists must attempt to awaken the public to the importance of parks and wildlife. In the context of public policy, the efficient allocation of resources consists not merely of distributing funds in the pursuit of given objectives but also involves determining the objectives themselves. Genuine public goods pose severe problems for the national budget; it is very difficult to decide how far particular goodsâ€"the arts, national parks, even defenseâ€"should be supplied, and therefore no formal procedure of determination is likely to evolve. What should be given to each will continue to be the subject of intense political debate, with allocation changing as the government changes. Merit goods The concept of merit goods assists governments in deciding which public or other goods should be supplied. Merit goods are commodities that the public sector provides free or cheaply because the government wishes to encourage their consumption. Goods such as subsidized housing or social services, which predominantly help the poor, or health care services, which help the poor and elderly, are generally regarded as having considerable merit and therefore have a strong claim on government resources. Other examples include the provision of retraining schemes or urban regeneration programs. Cost-benefit analysis Once decisions have been made on how the limited national budget should be divided between different groups of activities, or even before this, public authorities need to decide which specific projects should be undertaken. One method that has been used is cost-benefit analysis. This attempts to do for government programs what the forces of the marketplace do for business programs: If the ratio of benefits to costs is considered satisfactory, the project should be undertaken. Or, if funds are limited, public investment projects may be assigned priorities according to their cost-benefit ratios. One difficulty with cost-benefit analysis is that every government agency has an incentive to estimate favourable ratios for its own projects. It must, after all, compete with other agencies for funds. No one can be certain as to the returns to be expected from an irrigation canal or a highway. Private investors have also been known to exaggerate their claims in appealing to stockholders, but they are generally subject to market sanctions that encourage them to err on the side of caution. In addition to the possibility that cost-benefit analysis may be biased by the preformed views of those commissioning the study, there are other, more fundamental difficulties. Almost all proposals have effects that are difficult to value in monetary terms. The siting of a new airport brings problems of noise and property blight to local people and increases the risk that civilians may die in an accident. Putting a sensible value on human life has been a continuing difficulty for those carrying out cost-benefit analyses, even though every project does in fact affect probabilities of life and death. These problems are, of course, not confined to cost-benefit analysis. The failure of cost-benefit analysis to provide answers to the problems of valuing life, or the quality of life , is a reflection of the wider problem confronting all decisions on public expenditure: Public ownership and privatization Until the mids the proportion of economic activity controlled by the government and the share of taxes in national income tended to increase in most countries. Since then, however, challenges to this growth in the role of government have become increasingly influential, and moves to privatization have been common. There are several types of privatization. One involves the sale to private owners of state-owned assets, and this is most correctly called privatization. Publicly owned houses may be sold to their occupants. Commodity stockpiles may be reduced or disbanded. Increasingly, however, attention has been turned to the sale of publicly owned industries, thus reversing the move to nationalization that occurred, particularly in western Europe, around and after World War II. Where the privatized industry operates in a competitive environment , no new problems arise. Singapore has privatized its airline system, for example, which now competes with a mixture of privately and publicly owned international airlines. Where privatization occurs but monopoly continues, however, there are new difficulties. Both Japan and the United Kingdom have privatized their telecommunications networks. Although, in certain limited areas of telecommunications, competition is possibleâ€”and has been allowed to develop in both the United States and Britainâ€”technical and legal restrictions inhibit competition in many sectors of the industry. Regulation is necessary, therefore, to restrict the freedom of privatized monopolies, or near monopolies, to raise prices and to exploit consumers in other ways. In the United States, which has by far the longest history of regulating private utilities, such regulation has normally limited the rate of return that they earn to what is considered a fair level. A disadvantage of this is that it may give the industry no greater incentive to increased efficiency than would exist in public ownership, since higher costs can be passed directly onto consumers. There have been experiments, therefore, with other forms of regulation, which seek to strike a balance between incentives for better performance and the ability to exploit consumers. A further problem for such regulation is that utilities and similar industries normally operate in both competitive and monopoly markets. They may be inclined to use their monopoly power in some areas to gain unfair competitive advantages in others. Despite these difficulties, an increasingly wide range of industries, ranging from water supply to airports, are now considered candidates for privatization. Privatization can also mean the dismantling of existing statutory restrictions on competition. State activities are often protected by legal prohibitions on competing private enterprise. German railways, for example, are entirely state-owned, and the law not only prevents competing railroads but severely restricts coach services and limits competitive trucking. The dismantling of such restrictions is seen as one method of improving the efficiency of state concerns. Another demand of privatization is the contracting out of publicly provided services. These possibilities demonstrate that a service may be government-financed but not necessarily provided by the government; if extended more widely, the concept could yield a different view of the economic role of the state. While the objective of privatization is often to increase the efficiency of government activities, its implementation may also have important effects on government revenue. Any savings that result from lower costs lead directly to lower tax rates. Where budgeting procedures do not distinguish between capital and current transactions, the proceeds of privatization sales provide a once-and-for-all boost to revenues. The availability of this source of funding for state activity has given an artificial attractiveness to privatization, especially in the United Kingdom. If an industry is sold for the present value of its expected earnings and if these earnings are the same in public and private ownership, privatization should have no net impact on public finances. If it is expected to be more efficient in the private sector, government finance, on balance, gains. If it is sold for less than the maximum revenue that would be obtainedâ€”and this is often the case, either because of the difficulty of selling assets as large as nationalized industries or because the government wishes to secure a wide dispersion of share ownershipâ€”the impact is likely to be negative. Other forms of government intervention Government spending is not the only way in which government allocates resources. Its regional policies will determine whether domestic and overseas investors build factories in particular places, while its taxation policies will determine whether they build them at all. Government competition and merger policies affect the structure of industry and commerce, while regulatory activitiesâ€”setting the number of hours shops may be open or who may buy cigarettesâ€—have profound effects on commercial activities. Government also affects allocations by setting the legal and administrative framework within which the economy functions. It may specify minimum wage levels or control the siting of new ventures and the activities of existing ones. Such activities of government profoundly affect the allocation of resources, but they are rarely monitored or subject to serious control. The stabilization function Stabilization of the economy e. Fiscal policy relates to taxes and expenditures, monetary policy to financial markets and the supply of credit , money, and other financial assets. History of stabilization policy The use of fiscal and monetary policy as a means of stabilizing the economy is relatively recent, for the most part a development of the period after World War II. During the 19th century the only stabilization policy was that associated with the international gold standard. To counteract this process, the monetary authorities would raise interest rates and stiffen credit requirements, causing a fall in prices, income, and employment ; this in turn led to a reduction in imports and an expansion of exports, thus improving the balance of payments. If a country had a surplus in its balance of payments, gold tended to flow in; this meant that the interest rate fell and the supply of money and credit was increased. As a consequence, imports were stimulated and exports discouraged so that the surplus in the balance of payments tended to disappear. The adjustment mechanism also included another important element: When interest rates fell in surplus countries and rose in deficit countries, mobile international financial capital tended to flow from the former to the latter, contributing to the elimination of deficits and surpluses in the balance of payments. The working of this mechanism was partly automatic and partly the result of deliberate actions by the monetary authorities in each country. In this form of stabilization policy, external stability was achieved at the cost of stability in the domestic economy: Occasionally governments attempted to reduce the impact of this mechanism on the domestic economy, particularly on the price level.

Chapter 2 : What Is Keynesian Economics? - Back to Basics - Finance & Development, September

Government economic policy, measures by which a government attempts to influence the blog.quintoapp.com national budget generally reflects the economic policy of a government, and it is partly through the budget that the government exercises its three principal methods of establishing control: the allocative function, the stabilization function, and the distributive function.

Previously, classical economic thinking held that cyclical swings in employment and economic output would be modest and self-adjusting. According to this classical theory, if aggregate demand in the economy fell, the resulting weakness in production and jobs would precipitate a decline in prices and wages. A lower level of inflation and wages would induce employers to make capital investments and employ more people, stimulating employment and restoring economic growth. The depth and severity of the Great Depression, however, severely tested this hypothesis. Keynes maintained in his seminal book, "General Theory of Employment, Interest and Money," and other works, that structural rigidities and certain characteristics of market economies would exacerbate economic weakness and cause aggregate demand to plunge further. For example, Keynesian economics refutes the notion held by some economists that lower wages can restore full employment , by arguing that employers will not add employees to produce goods that cannot be sold because demand is weak. Similarly, poor business conditions may cause companies to reduce capital investment , rather than take advantage of lower prices to invest in new plants and equipment. This would also have the effect of reducing overall expenditures and employment. The famous book was informed by directly observable economic phenomena arising during the Great Depression, which could not be explained by classical economic theory. In classical economy theory, it is assumed that output and prices will eventually return to a state of equilibrium , but the Great Depression seemed to counter this assumption. Output was low and unemployment remained high during this time. The Great Depression inspired Keynes to think differently about the nature of the economy. From these theories, he established real-world applications that could have implications for a society in economic crisis. Keynes rejected the idea that the economy would return to a natural state of equilibrium. Instead, he envisaged economies as being constantly in flux, both contracting and expanding. This natural cycle is referred to as boom and bust. In response to this, Keynes advocated a countercyclical fiscal policy in which, during the boom periods, the government ought to increase taxes or cut spending, and during periods of economic woe, the government should undertake deficit spending. Keynes was highly critical of the British government at the time. The government cut welfare spending and raised taxes to balance the national books. Keynes said this would not encourage people to spend their money, thereby leaving the economy unstimulated and unable to recover and return to a successful state. Instead, he proposed that the government spend more money, which would increase consumer demand in the economy. This would in turn lead to an increase in overall economic activity, the natural result of which would be deflation and a reduction in unemployment. Keynes also criticized the idea of excessive saving, unless it was for a specific purpose such as retirement or education. He saw it as dangerous for the economy because the more money sitting stagnant, the less money in the economy stimulating growth. These two schools of thought assume that the market is self-regulating and natural forces will inevitably return it to a state of equilibrium. On the other hand, Keynes, who was writing while mired in a period of deep economic depression, was not as optimistic about the natural equilibrium of the market. He believed the government was in a better position than market forces when it came to creating a robust economy. Keynesian Economics and the Multiplier Effect The multiplier effec t is one of the chief components of Keynesian economic models. This theory proposes that spending boosts aggregate output and generates more income. If workers are willing to spend their extra income, the resulting growth in gross domestic product GDP could be even greater than the initial stimulus amount. The magnitude of the Keynesian multiplier is directly related to the marginal propensity to consume. Its concept is simple: Spending from one consumer becomes income for another worker. Keynes and his followers believed individuals should save less and spend more, raising their marginal propensity to consume , to effect full employment and economic growth. In this way, one dollar spent in fiscal stimulus eventually creates more than one dollar in growth. This appeared to be a coup for government economists, who could provide justification for politically popular spending projects on a national scale. This theory was the dominant paradigm in academic economics for decades. Eventually, other economists, such as Milton Friedman and Murray Rothbard , showed that the Keynesian model misrepresented the relationship between savings, investment and economic growth. Many economists still rely on multiplier-generated models, although most acknowledge that fiscal stimulus is far less effective than the original multiplier model suggests. The fiscal multiplier commonly associated with Keynesian theory is one of two broad multipliers in macroeconomics. The other multiplier is known as the money multiplier. This multiplier refers to the money-creation process that results from a system of fractional reserve banking. The money multiplier is less controversial than its Keynesian fiscal counterpart. Keynesian Economics and Interest Rates Keynesian economics focuses on demand-side solutions to recessionary periods. The intervention of government in economic processes is an important part of the Keynesian arsenal for battling unemployment, underemployment and low economic demand. The emphasis on direct government intervention in the economy places Keynesian theorists at odds with those who argue for limited government involvement in the markets. Lowering interest rates is one way governments can meaningfully intervene in economic systems, thereby generating active economic demand. Keynesian theorists argue that economies do not stabilize themselves very quickly and require active intervention that boosts short-term demand in the economy. Wages and employment, they argue, are slower to respond to the needs of the market and require governmental intervention to stay on track. Prices also do not react quickly, and only gradually change when monetary policy interventions are made. This slow change in prices, then, makes it possible to use money supply as a tool and change interest rates to encourage borrowing and lending. Short-term demand increases initiated by the government reinvigorate the economic system and restore employment and demand for services. The new economic activity feeds a circular, cyclical growth that maintains continued growth and employment. Without intervention, Keynesian theorists believe, this cycle is disrupted and market growth becomes more unstable and prone to excessive fluctuation. Keeping interest rates low is an attempt to stimulate the economic cycle by encouraging businesses and individuals to borrow more money. When borrowing is encouraged, businesses and individuals often increase their spending. This new spending stimulates the economy. Lowering interest rates, however, does not always lead directly to economic improvement. Keynesian economists focus on lower interest rates as a solution to economic woes, but they generally try to avoid the zero-bound problem. As interest rates approach zero, stimulating the economy by lowering interest rates becomes more difficult. Interest rate manipulation may no longer be enough to generate new economic activity, and the attempt at generating economic recovery may stall completely. The lower boundary of interest rates, then, is not necessarily an aspiration of Keynesian economists, but is rather a means to an end. When this method fails to deliver results, other strategies must be appropriated. Other interventionist policies include direct control of the labor supply, changing tax rates to increase or decrease the money supply indirectly, changing monetary policy, or placing controls on the supply of goods and services until employment and demand are restored. Keynesian theorists believe in interventionist methods, but are occasionally forced to look beyond interest rates.

Chapter 3 : Laissez-faire - Wikipedia

They start with a manifesto in praise of economic history as an intellectual discipline of particular value to economists and end with a paper, from which the book takes its title, reviewing some of the economic ideas that have influenced British governments since the war.

When the eager mercantilist minister asked how the French state could be of service to the merchants and help promote their commerce, Le Gendre replied simply "laissez-nous faire" "leave it to us" or "let us do [it]", the French verb not having to take an object. It is a detestable principle of those that want to enlarge themselves but by the abasement of our neighbours. There is but the wicked and the malignant heart s who are satisfied by this principle and its interest is opposed. Delighted with the Colbert-Le Gendre anecdote, [9] he forged it into a larger maxim all his own: Although Gournay left no written tracts on his economic policy ideas, he had immense personal influence on his contemporaries, notably his fellow Physiocrats, who credit both the laissez-faire slogan and the doctrine to Gournay. The physiocrats, reacting against the excessive mercantilist regulations of the France of their day, expressed a belief in a "natural order" or liberty under which individuals in following their selfish interests contributed to the general good. Since, in their view, this natural order functioned successfully without the aid of government, they advised the state to restrict itself to upholding the rights of private property and individual liberty, to removing all artificial barriers to trade, and to abolishing all useless laws. So in effect, Spencer decried laissez-faire socialism. Laissez-faire, a product of the Enlightenment , was "conceived as the way to unleash human potential through the restoration of a natural system, a system unhindered by the restrictions of government". Smith saw laissez-faire as a moral program and the market its instrument to ensure men the rights of natural law. Jeremy Bentham used the term, but it was probably[original research? With the advent of the Anti-Corn Law League founded , the term received much of its English meaning. In political economy , that idea and the doctrine of laissez-faire have long been[by whom? The individual has a natural right to freedom. The physical order of nature is a harmonious and self-regulating system. Corporations are creatures of the State and therefore the citizenry must watch them closely due to their propensity to disrupt the Smithian spontaneous order. Another basic and often-disregarded[by whom? Quesnay had the ear of the King of France, Louis XV and in persuaded him to give laissez-faire a try. On September 17, the King abolished all tolls and restraints on the sale and transport of grain and for more than a decade the experiment was a success, but then in there was a poor harvest, and the cost of bread rose so high that there was widespread starvation while merchants exported grain in order to obtain the best profit. In , the edict allowing free trade was revoked. The state was to be merely a passive policeman , protecting private property and administering justice, but not interfering with the affairs of its citizens. Businessmen and particularly British industrialists were quick to associate these principles with their own economic interests. In , referring to the famine then underway in Ireland , founder of The Economist James Wilson wrote: The tariffs on grain which kept the price of bread artificially high were repealed. The goal was to ensure that dearly-won political independence was not lost by being economically and financially dependent on the powers and princes of Europe. The creation of a strong central government able to promote science, invention, industry and commerce was seen as an essential means of promoting the general welfare and making the economy of the United States strong enough for them to determine their own destiny. Donohue argues that classical liberalism in the United States in the 19th century had distinctive characteristics and that "at the center of classical liberal theory [in Europe] was the idea of laissez-faire. To the vast majority of American classical liberals, however, laissez-faire did not mean "no government intervention" at all. On the contrary, they were more than willing to see government provide tariffs, railroad subsidies, and internal improvements, all of which benefited producers". Several of these proposals met with serious opposition and required a great deal of horse-trading to be enacted into law. For instance, the First National Bank would not have reached the desk of President George Washington in the absence of an agreement that was reached between Alexander Hamilton and several Southern members of Congress to locate the capitol in the District of Columbia. Most of the early opponents of laissez-faire capitalism in the United States subscribed to the

American School. This school of thought was inspired by the ideas of Hamilton, who proposed the creation of a government-sponsored bank and increased tariffs to favor Northern industrial interests. In the early 19th century, "it is quite clear that the laissez-faire label is an inappropriate one" to apply to the relationship between the United States government and industry. Following the Civil War, the movement towards a mixed economy accelerated. Government regulation of the economy expanded with the enactment of the Interstate Commerce Act of and the Sherman Anti-trust Act. Following World War I and the Great Depression , the United States turned to a mixed economy which combined free enterprise with a progressive income tax and in which from time to time the government stepped in to support and protect American industry from competition from overseas. For example, in the s the government sought to protect the automobile industry by "voluntary" export restrictions from Japan. Nivola wrote in By and large, the comparative strength of the dollar against major foreign currencies has reflected high U. Put simply, the roots of the trade problem and of the resurgent protectionism it has fomented are fundamentally political as well as economic. Other than laissez-faire economics and anarcho-capitalism it is not associated with a school of thought and typically has a bad connotation which hints towards a perceived need for restraint due to social needs and securities that can not be adequately responded to by companies with just a motive for making profit. Robert Kuttner states that "for over a century, popular struggles in the democracies have used the nation-state to temper raw capitalism. The power of voters has offset the power of capital. But as national barriers have come down in the name of freer commerce, so has the capacity of governments to manage capitalism in a broad public interest.

Chapter 4 : Government economic policy | finance | blog.quintoapp.com

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The central tenet of this school of thought is that government intervention can stabilize the economy Just how important is money? Few would deny that it plays a key role in the economy. British economist John Maynard Keynes spearheaded a revolution in economic thinking that overturned the then-prevailing idea that free markets would automatically provide full employmentâ€"that is, that everyone who wanted a job would have one as long as workers were flexible in their wage demands see box. Keynes further asserted that free markets have no self-balancing mechanisms that lead to full employment. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability. The revolutionary idea Keynes argued that inadequate overall demand could lead to prolonged periods of high unemployment. Any increase in demand has to come from one of these four components. But during a recession, strong forces often dampen demand as spending goes down. For example, during economic downturns uncertainty often erodes consumer confidence, causing them to reduce their spending, especially on discretionary purchases like a house or a car. This reduction in spending by consumers can result in less investment spending by businesses, as firms respond to weakened demand for their products. This puts the task of increasing output on the shoulders of the government. According to Keynesian economics, state intervention is necessary to moderate the booms and busts in economic activity, otherwise known as the business cycle. There are three principal tenets in the Keynesian description of how the economy works: Private sector decisions can sometimes lead to adverse macroeconomic outcomes, such as reduction in consumer spending during a recession. These market failures sometimes call for active policies by the government, such as a fiscal stimulus package explained below. Therefore, Keynesian economics supports a mixed economy guided mainly by the private sector but partly operated by the government. Keynesians believe that, because prices are somewhat rigid, fluctuations in any component of spendingâ€"consumption, investment, or government expendituresâ€"cause output to change. If government spending increases, for example, and all other spending components remain constant, then output will increase. Keynesian models of economic activity also include a multiplier effect; that is, output changes by some multiple of the increase or decrease in spending that caused the change. If the fiscal multiplier is greater than one, then a one dollar increase in government spending would result in an increase in output greater than one dollar. Keynes the master Keynesian economics gets its name, theories, and principles from British economist John Maynard Keynes â€" , who is regarded as the founder of modern macroeconomics. But its precursor, A Treatise on Money, is often regarded as more important to economic thought. Until then economics analyzed only static conditionsâ€"essentially doing detailed examination of a snapshot of a rapidly moving process. Keynes, in Treatise, created a dynamic approach that converted economics into a study of the flow of incomes and expenditures. He opened up new vistas for economic analysis. He remembered the lessons from Versailles and from the Great Depression, when he led the British delegation at the Bretton Woods conferenceâ€"which set down rules to ensure the stability of the international financial system and facilitated the rebuilding of nations devastated by World War II. Stabilizing the economy No policy prescriptions follow from these three tenets alone. What distinguishes Keynesians from other economists is their belief in activist policies to reduce the amplitude of the business cycle, which they rank among the most important of all economic problems. Rather than seeing unbalanced government budgets as wrong, Keynes advocated so-called countercyclical fiscal policies that act against the direction of the business cycle. For example, Keynesian economists would advocate deficit spending on labor-intensive infrastructure projects to stimulate employment and stabilize wages during economic downturns. They would raise taxes to cool the economy and prevent inflation when there is abundant demand-side growth. Monetary policy could also be used to stimulate the economyâ€"for example, by reducing interest rates to encourage investment. The exception occurs during a liquidity trap, when increases in the money stock fail to lower interest rates and, therefore, do not boost output and employment. In fact, they believe that governments cannot know enough to fine-tune successfully. Keynesianism evolves Even though his ideas were widely accepted while Keynes was alive, they were also scrutinized and contested by several contemporary thinkers. Particularly noteworthy were his arguments with the Austrian School of Economics, whose adherents believed that recessions and booms are a part of the natural order and that government intervention only worsens the recovery process. Members of the monetarist school also maintained that money can have an effect on output in the short run but believed that in the long run, expansionary monetary policy leads to inflation only. Keynesian economists largely adopted these critiques, adding to the original theory a better integration of the short and the long run and an understanding of the long-run neutrality of moneyâ€”the idea that a change in the stock of money affects only nominal variables in the economy, such as prices and wages, and has no effect on real variables, like employment and output. Both Keynesians and monetarists came under scrutiny with the rise of the new classical school during the mids. The new classical school asserted that policymakers are ineffective because individual market participants can anticipate the changes from a policy and act in advance to counteract them. A new generation of Keynesians that arose in the s and s argued that even though individuals can anticipate correctly, aggregate markets may not clear instantaneously; therefore, fiscal policy can still be effective in the short run. The global financial crisis of â€”08 caused a resurgence in Keynesian thought. It was the theoretical underpinnings of economic policies in response to the crisis by many governments, including in the United States and the United Kingdom. As the global recession was unfurling in late , Harvard professor N. Although Keynes died more than a half-century ago, his diagnosis of recessions and depressions remains the foundation of modern macroeconomics. Keynesian economists are rectifying that omission by integrating the real and financial sectors of the economy.

Chapter 5 : US Government Information Policy

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The classical tradition of partial equilibrium theory had been to split the economy into separate markets, each of whose equilibrium conditions could be stated as a single equation determining a single variable. The theoretical apparatus of supply and demand curves developed by Fleeming Jenkin and Alfred Marshall provided a unified mathematical basis for this approach, which the Lausanne School generalized to general equilibrium theory. For macroeconomics the relevant partial theories were: Keynes sought to supplant all three aspects of the classical theory. Precursors of Keynesianism[edit] See also: A number of the policies Keynes advocated to address the Great Depression notably government deficit spending at times of low private investment or consumption , and many of the theoretical ideas he proposed effective demand, the multiplier, the paradox of thrift , had been advanced by various authors in the 19th and early 20th centuries. An intellectual precursor of Keynesian economics was underconsumption theories associated with John Law , Thomas Malthus , the Birmingham School of Thomas Attwood , [7] and the American economists William Trufant Foster and Waddill Catchings , who were influential in the s and s. Underconsumptionists were, like Keynes after them, concerned with failure of aggregate demand to attain potential output , calling this "underconsumption" focusing on the demand side , rather than " overproduction " which would focus on the supply side , and advocating economic interventionism. Numerous concepts were developed earlier and independently of Keynes by the Stockholm school during the s; these accomplishments were described in a article, published in response to the General Theory, sharing the Swedish discoveries. Robertson in his The Fallacy of Saving, in earlier forms by mercantilist economists since the 16th century, and similar sentiments date to antiquity. In it he attributes unemployment to wage stickiness [13] and treats saving and investment as governed by independent decisions: This argument rests upon the assumption that if a surplus of goods or services exists, they would naturally drop in price to the point where they would be consumed. Given the backdrop of high and persistent unemployment during the Great Depression, Keynes argued that there was no guarantee that the goods that individuals produce would be met with adequate effective demand, and periods of high unemployment could be expected, especially when the economy was contracting in size. He saw the economy as unable to maintain itself at full employment automatically, and believed that it was necessary for the government to step in and put purchasing power into the hands of the working population through government spending. Thus, according to Keynesian theory, some individually rational microeconomic-level actions such as not investing savings in the goods and services produced by the economy, if taken collectively by a large proportion of individuals and firms, can lead to outcomes wherein the economy operates below its potential output and growth rate. Prior to Keynes, a situation in which aggregate demand for goods and services did not meet supply was referred to by classical economists as a general glut , although there was disagreement among them as to whether a general glut was possible. Keynes argued that when a glut occurred, it was the over-reaction of producers and the laying off of workers that led to a fall in demand and perpetuated the problem. Keynesians therefore advocate an active stabilization policy to reduce the amplitude of the business cycle, which they rank among the most serious of economic problems. According to the theory, government spending can be used to increase aggregate demand, thus increasing economic activity, reducing unemployment and deflation. Samuelson puts it as follows: The producers of these goods will now have extra incomes Henry Hazlitt , who considered Keynes to be as much a culprit as Kahn and Samuelson, wrote that The textbook multiplier gives the impression that making society richer is the easiest thing in the world: For him the initial expenditure must not be a diversion of funds from other uses but an increase in the total amount of expenditure taking place: On p Kahn rejects the claim that the effect of public works will be at the expense of expenditure elsewhere, admitting that this might arise if the revenue was raised by taxation, but says that other means are available which have no such consequences. As an example he suggests that the money may be raised by borrowing from banks, since This assumes that banks are free to create resources to answer any demand. But Kahn adds that For it will be demonstrated later on that, pari passu with the building of roads, funds are released from various sources at precisely the rate that is required to pay the cost of the roads. It is the orthodox Treasury dogma, steadfastly held The first proposition would ascribe to us an absolute and rigid dogma, would it not? Pigou was at the time the sole economics professor at Cambridge. Nor were his practical recommendations very different: Keynes was seeking to build theoretical foundations to support his recommendations for public works while Pigou showed no disposition to move away from classical doctrine. Referring to him and Dennis Robertson , Keynes asked rhetorically: It is almost wholly theoretical in nature, enlivened by occasional passages of satire and social commentary. The book had a profound impact on economic thought, and ever since it was published there has been debate over its meaning. Under the classical theory the wage rate is determined by the marginal productivity of labour , and as many people will be employed as are willing to take work at that rate. Keynesian unemployment[edit] Saving and investment[edit] Saving is that part of income not devoted to consumption , and consumption is that part of expenditure not allocated to investment , i. The existence of net hoarding, or of a demand to hoard, is not admitted by the simplified liquidity preference model of the General Theory. Once he has rejected the classical theory that unemployment is due to excessive wages, Keynes proposes his alternative based on the relationship between saving and investment. The levels of saving and investment are necessarily equal, and income is therefore held down to a level at which the desire to save is no greater than the incentive to invest. The incentive to invest arises from the interplay between the physical circumstances of production and psychological anticipations of future profitability; but once these things are given the incentive is independent of income and depends solely on the rate of interest r. Liquidity preference[edit] Determination of income according to the General Theory. Keynes viewed the money supply as one of the main determinants of the state of the real economy. The significance he attributed to it is one of the innovative features of his work, and was influential on the politically hostile monetarist school. Keynes never fully integrated his second liquidity preference doctrine with the rest of his theory, leaving the task to be completed by John Hicks: Wage rigidity[edit] Although Keynes rejects the classical explanation of unemployment based on wage rigidity it is not clear what effect the wage rate has on unemployment in his own system. He treats the wages of all workers as proportional to a single rate set by collective bargaining, and chooses his units so that this rate never appears separately in his discussion. It is present implicitly in those quantities which are expressed in wage units while being absent from those expressed in money terms. It is therefore difficult to see whether, and in what way, his results would differ for a different wage rate; nor is it entirely clear what he thought on the matter. Later in the same chapter he tells us that: Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed two activities, namely, pyramid-building as well as the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York. But again the implied recommendation to engage in public works, even if they are not fully justified from their direct benefits, is not taken up when the theory has been constructed. On the contrary he advises us later that The horizontal blue line Is r is the schedule of the marginal efficiency of capital whose value is independent of Y. But insofar as they had had a concept of aggregate demand, they had seen the demand for investment as being given by S Y , since for them saving was simply the indirect purchase of capital goods, with the result that aggregate demand was equal to total income as an identity rather than as an equilibrium condition. As a consequence of the identity of saving with investment Chapter 6 together with the equilibrium assumption that these quantities are equal to their demands. In agreement with the substance of the classical theory of the investment funds market, whose conclusion he considers the classics to have misinterpreted through circular reasoning Chapter Keynes states that there is The schedule of the marginal efficiency of capital is identified as one of the independent variables of the economic system: For when we look upon the Multiplier as an instantaneous functional relation Keynes gave his formula almost the status of a definition it is put forward in advance of any explanation [67]. The resulting multiplier has a more complicated formula and a smaller numerical value. The liquidity trap is a phenomenon which may impede the effectiveness of monetary policies in reducing unemployment. It has generally been considered that the rate of interest would not fall below a certain limit, often seen as zero or a slightly negative number. Keynes suggested that the limit might be appreciably greater than zero but did not attach much practical significance to it. Paul Krugman has worked extensively on the liquidity trap, claiming that it was the problem confronting the Japanese economy around the turn of the millennium. Short-term interest rates were close to zero, long-term rates were at historical lows, yet private investment spending remained insufficient to bring the economy out of deflation. In that environment, monetary policy was just as ineffective as Keynes described. Attempts by the Bank of Japan to increase the money supply simply added to already ample bank reserves and public holdings of cash Less classically he extends this generalization to the schedule of the marginal efficiency of capital. We may construct a graph on Y,r coordinates and draw a line connecting those points satisfying the equation: Joan Robinson commented that: Hicks has now repented and changed his name from J. Please help improve it or discuss these issues on the talk page.

Chapter 6 : Economic Policy

Get this from a library! Economic ideas and government policy: contributions to contemporary economic history. [Alec Cairncross].

What is a case study paper? Good Topics for Economic Research Papers: Current Problems You Can Analyze Selecting a topic for a research paper often proves harder than writing the paper itself. Economics is a vast and interesting subject. Almost everything under the sun falls under its domain. A fact not much appreciated by other related and unrelated fields. Selecting a topic for a research paper in economics is as hard as it is easy! You can select from a myriad of intriguing areas and categories. You can take your pick from writing a research paper on a historical analysis of economic systems to the future of world economy. Yet, the most interesting discussions are those that are current and relevant. Here is a compilation of hot and current offerings from the subject of economics: Do the benefits of college still outweigh the costs? Poverty, income and wealth distribution: Are our resources scarce in relation to our needs? What does it imply: Trade-offs or redistribution of wealth? Market versus non-market systems. Has the collapse of economy passed? An analysis of pre and post market The best decisions are made on Marginal Analysis. Should there be a limit to the ownership of private property? Economics of poverty World Food Crisis: What it means, what are the causes? Where is it seen? Was Marx right Can huge charities solve any problem? Why is the world economy sliding down despite Quantitative easing? Are Keynesian policies a more viable method to deal with the current economic crisis? These are just a few of hundreds of intriguing current topics that can be used for your research paper. The best topic will always be the one that is interesting for you, as your enthusiasm and involvement with it will seep through to your reader.

Chapter 7 : 25 Contemporary Topics For A Term Paper In Economics

Economic policy is the term used to describe government actions that are intended to influence the economy of a city, state, or nation. Some examples of these actions include setting tax rates.

In partnership with the Grattan Institute, we explore the pressing policy challenges facing Australia in terms of tax and budgets, cities, transport, energy, school education, higher education and health. The Coalition has scraped into a second term. How credible is its economic growth program, and what else should it do to strengthen growth? The good news is that the transition from the mining boom is proceeding about as well as should have been expected. It is true that national income per person is lower than five years ago see figure below and that wages are also stagnating. But these changes are mostly due to falling resource prices. GDP growth, while subdued in recent years, has been fast enough to keep unemployment in check though average hours per worker have declined , and it even shows signs of picking up. But deeper economic challenges persist. Slow growth and rising inequality helped drive the populist anger and political instability we now see in the EU and US. The first term leaves a mixed legacy And some initiatives, such as scrapping a broad-based carbon price , were outright mistakes. Critically, in its first term the Coalition failed to get the budget under control. Growth plans leave many good ideas off the table The coalition campaigned on jobs and growth, but in reality its growth program is patchy. The signature policy â€” phased cuts in the company tax rate â€" would ultimately increase national income by about 0. But business tax cuts could drag on national income for up to a decade, as foreign investors pay less tax from the beginning, while benefits from greater investment take time. Other parts of the coalition plan are far from being fleshed out. The government will seek to implement its already announced innovation and competition policy agendas. The Turnbull government also plans to pursue further trade agreements with the European Union, India, and Indonesia. On the downside, its Smart Cities Plan, which aims to finance improvements in urban transport and housing, lacks detail. And its plan to slowly reduce the budget deficit relies mostly on revenue increases that may not materialise. Overall, the plan for jobs and growth is far from complete. The government should consider five further options to increase economic growth. Taxes and work First, the government should shift the tax base towards taxes that do less to discourage investment and work. General property taxes should replace stamp duties, which deter people from moving to a home that suits their current needs. While these are state matters, the Commonwealth could consider providing incentive payments to states to make the switch, since its revenues will ultimately rise as the reforms increase incomes. Second, government should help people stay in work, or get back to work. Female labour force participation in Australia is below that of many high-income economies. Low rates of take-home pay deter some women from joining the labour force or working full-time. The system of family payments and childcare support needs an overhaul to encourage greater female labour force participation. Older Australians, too, are less likely to work than in many comparable economies. The age at which people can access superannuation or the age pension affects when some workers decide to retire. Australia is already increasing the pension eligibility age from 65 to 67, and phasing up from 55 to 60 the age at which people can begin to draw down their superannuation. Government should further increase pension and superannuation access ages. Flexibility and innovation Third, government should remove remaining impediments to flexibility in the economy. Reforms over the past 30 years including a floating exchange rate, low barriers to trade and capital flows, and the shift to enterprise bargaining have helped the economy adjust through the mining boom. But many policies, including a wide array of regulation , occupational licensing , and industry support such as anti-dumping tariffs that delay the exit of less efficient firms , still limit flexibility. Fourth, government should remove barriers to innovation, while only funding programs that are supported by evidence that they actually help innovators at a reasonable cost. The National Innovation and Science Agenda will cut barriers to new business creation and improve research-business collaboration. The vast majority of innovations used in Australia are produced elsewhere. Government should remove barriers to the local spread of global innovations such as cloud computing and peer-to-peer business models such as Uber and Airbnb. States are responsible for barriers such as taxi regulation, while labour regulation and tax are largely Commonwealth responsibilities. Intellectual property rules can also impede the spread of productive ideas. Sector-specific reforms Fifth, if much of the low-hanging fruit of economy-wide reform has been picked, many opportunities in individual sectors remain. Government should introduce tougher competition, close excess accounts, and push subscale funds to close. The Harper Competition Policy Review recommended creating a new national competition body, the Australian Council for Competition Policy, to advocate policy reform to increase competition. Finally, investment in high quality infrastructure along with rules such as user charging to encourage efficient use promotes growth. Yet governments have already spent large amounts of money, not always wisely , on new public infrastructure over the past decade. Political realities To enact any of these policies, the coalition will likely first seek support in the Senate from Labor or the Greens, rather than from the 10 or so independent and small party senators. Some policies are very unlikely to pass the Senate: But some policies have a fighting chance, such as the City Deals, borrowed from the UK and new initiatives to cut superannuation costs. If many other policies including family payments reform and the flexibility initiatives are to have a chance of making it into law, the Coalition will first have to make a case for them and win public support. The Coalition campaigned on its ability to provide jobs and growth. But its campaign platform for jobs and growth was far too narrow. To turn talk into action, it will need to win support for a much more expansive and ambitious agenda.

Chapter 8 : Economic Policy Institute | Research and Ideas for Shared Prosperity

Keynesian economics dominated economic theory and policy after World War II until the s, when many advanced economies suffered both inflation and slow growth, a condition dubbed "stagflation.".

Broadly speaking, we see information policy as concerned with 3 major areas. Governmental creation and dissemination of information. This includes government funding of research and development efforts, as well as government creation of information such as economic statistics, dissemination of legislation and administrative rulings, cultural materials, and so on. It is important to observe that government policy towards the creation of information is distinct from government policy towards the dissemination of information once created. Development, regulation, and usage of information infrastructure. This includes issues such as telephony and broadcast regulation, infrastructure for schools and libraries, security and integrity of the infrastructure, and so on. Institutional and legal infrastructure. This includes US participation in international treaties and organizations, privacy rules, antitrust policy, standard settings, contract law, encryption and security, and intellectual property policy. These categories overlap in places, but we think that they provide a reasonable conceptual framework within which to examine a variety of issues. Economic principles Our premise is that the underlying principles appropriate for government information policy should be the same as the principles appropriate for government policy in general. Hence we begin by describing the principles that we believe should inform overall government policy. Our expertise is in economics, so most of our discussion will be concerned with economic issues. Serious attempts should be made to estimate benefits and costs that accrue to various economic and demographic groups as a consequence of potential government policies. Government projects and policies for which aggregate costs exceed aggregate benefits should not be adopted. Projects for which aggregate benefits exceed aggregate costs are candidates for adoption, if a compelling case can be made about why the private sector will not undertake such projects. Efficiency calls for groups enjoying the bulk of the benefits to pay at least the incremental cost of the services they receive, and for any taxes imposed to fund government programs to be applied where they will have the least impact on private-sector decisions. Equity considerations tend to call for compensation for groups who bear the bulk of the costs associated with a government policy, or for subsidies to be offered based on need. Efficient pricing of Internet services requires that prices reflect true incremental costs, e. Private sector initiatives are greatly enhanced if property rights are clearly determined. Tragedies of the commons, congestion, and other externalities can be mitigated if property rights are clearly specified and enforced. For Internet infrastructure, it is important to clearly define and assign property rights to domain names, both to encourage users to invest in and promote specific addresses, and to prevent costly legal disputes over ownership. Property rights are important, but the right to negotiate away from the default assignment of rights is also of major importance. Voluntary negotiation among individuals with explicit default rules is an excellent way to discover mutual improvements to the default property assignments. In markets for information a great variety of contractual forms may be needed to achieve legitimate business objectives. Only rarely should government restrict the right of contract, e. Default rights should generally be set to minimize the transactions costs of negotiating away from these defaults. For Internet commerce to operate effectively, individuals must have the ability to give away or sell the rights to their personal information. This way, individuals can directly benefit by letting vendors know about their preferences so that they can be offered products that they are more likely to buy. Externalities and public goods. For example, if I broadcast signals on a frequency that you also use, the quality of your transmissions are likely to suffer. In the broadcast example, if rights to two neighboring pieces of the spectrum are owned by a single entity, that entity will account for interference between these two pieces of spectrum in its operations. Alternatively, two owners of neighboring spectrum can limit adverse impacts on each other by agreeing to contractual restrictions on the transmissions each of them makes. In other cases, especially when there are many affected parties, contractual solutions to externalities may be impractical, making it attractive to use taxes or subsidies to limit negative externalities or to encourage positive ones. On the Internet, existing users enjoy positive externalities as others use the network and as more information is posted on-line, but at some point incremental usage can create negative externalities due to congestion, as when servers are too busy to respond or telephone lines are tied up. In the absence of significant externalities, competitive markets can generally be expected to result in efficient outcomes. However, with economies of scale, as often are present in information markets, competition may well lead to a small number of suppliers, or even a monopoly. Monopolized markets are better than no market at all, but may generate inefficient outcomes. The government can play a role in discouraging anti-competitive practices and preventing mergers that reduce competition. A variety of government entities--including the Federal Communications Commission, the Department of Justice, and state public utility commissions--play active roles in attempting to control monopoly power over the basic telephone infrastructure, both through antitrust and regulatory policies. The Telecommunications Act of has created an extensive regulatory structure with the goal of prying open local telephone monopolies. Privatization and outsourcing Whether the government actually performs a given function is separate from the question of whether the government supports or mandates that service. Unless there are specific reasons for direct government involvement, such as security concerns, the private sector, which is subject to the discipline of the capital markets, should be used to supply or perform services. In some cases, especially in foreign countries with histories of extensive public-sector involvement in commercial activities, this principle calls for privatization of various infrastructure assets. In the US, this principle typically comes into play in decisions to outsource functions to the private sector. In either case, competition within the private sector, either in the actual provision of a service, or at least in bidding to become the sole contractor, is preferable to monopoly. International Trade and Investment Economic growth and efficiency are generally promoted by policies that encourage the free flow of goods and services, information, and investments across national boundaries. Foreign countries, and especially net importers or information, should be encouraged to respect intellectual property rights. Absent compelling national interests, US firms should be free to make foreign investments, and foreign firms should be permitted to invest in the US. The US should, however, use access to the attractive US market as a bargaining chip in gaining access to foreign markets that are protected by trade barriers. The US is moving to permit greater foreign ownership of domestic telecommunications companies, so long as the host country of the foreign firm making the investment itself permits such investments. Such reciprocity, which also has worked well in the airline industry, can help liberalize foreign telecommunications markets, which generally serves US interests. However, the promise by a foreign government to permit outside investments in its PTT is not meaningful absent real privatization. Government creation of information As dictated by our general principles, the government should not be involved in the creation of information unless a the information generates positive externalities, b private production of the information would occur under monopolized conditions, or c the government is likely to be especially efficient at producing the information in question. Even these conditions are not sufficient to justify government involvement; they are merely necessary. Information as a public good The unique nature of information as an economic good has been recognized by many observers. The key aspect of information for the purposes of economic analysis is that information is costly to produce, but very cheap to reproduce, especially digital form. This property suggests that efficiency is served by making information freely available. But this begs the question of who will pay for the information in the first place, and what information is worth producing to begin with. A public good has two properties: Information that is easy to replicate has the first property. Information typically does not have the second property, although this depends upon technological and social conditions. For example, satellite broadcasts are encrypted to exclude would-be recipients who have not paid to receive them. Legal rules also determine whether certain information can be kept from those who do not pay for it. Text that is copyrighted may not be reproduced without appropriate compensation to the copyright holder, so it is excludable by law. Of course, such exclusion can never be absolute, because of the costs borne by the copyright holder in enforcing its intellectual property rights. Since information typically can be copied at minimal cost, especially in a digital world, the creation and dissemination of information tends to be subject to strong economies of scale: As a general principle, the presence of strong economies of scale implies that a single supplier may dominate the market: The fact that information has some of the characteristics of a public good, and is subject to strong economies of scale, has led various observers to argue that the government should produce, or at least subsidize, the creation of information. Someone must cover the cost of production and it is often more expensive for the government to do that than the private sector. The relevant consideration is whether the benefits minus costs of public production are substantially larger than the benefits minus costs of private production. First, we must recognize that financing government production of information often involves the use of tax revenues. This factor tends to tip the scales towards private rather than government financing of the creation of information. Since the costs of government activities are typically covered by taxes on private activities, a dollar raised by taxation is more costly from a social viewpoint than a dollar spent by a private firm, since the dollars raised by taxation tend to discourage other economic activities. Hence, government expenditures must be at least percent more valuable than private expenditures in order to increase net welfare. Second, private production of information may involve monopoly power. Ironically, at least some amount of market power is necessary if private production of information is to be profitable. This factor favors government involvement, since holding aside information that must be keep secret for security purposes information produced or controlled by the government is likely to be disseminated more widely than privately-controlled information. Since information is costly to produce but very inexpensive to reproduce, private information providers, in seeking to recover their fixed costs of creating the information, typically will charge well above incremental cost when selling the information. These charges will deter some potential users from acquiring the information, and thus inefficiently restrict dissemination. In principle, the government can avoid this inefficiency by distributing the information freely; we discuss dissemination policies below. Third, there are cases where government agencies have natural cost advantages in producing information. This most often occurs when the government is reporting on its own activities, or when valuable information is a byproduct of government law enforcement activities. For example, the SEC has become a very valuable source of financial information, and the PTO offers a wealth of information about patents. Likewise, the reporting of court decisions, legislation, or administrative rulings may be most effectively done by the government. When government creation of information is desirable Basic research is an example where government production or subsidization may be warranted based on public-good considerations. Research into, say, cosmology, may not be undertaken by the private sector, but may well be socially valuable. The population may, in aggregate, be willing to underwrite such research, even though it has few immediate applications. It is important to recognize that basic research may easily have practical payoffs down the road. The whole framework for modern encryption technology, which plays a significant role in secure Internet commerce, is built on research into factorization of prime numbers--at one time thought to be an entirely esoteric line of research. Basic research produces ideas, and ideas are, by their nature, difficult to appropriate. This is to be distinguished from applied research, where the patent system allows for appropriability for some period of time. There are cases where the government has a natural cost advantage in production of information, in the sense that it is more efficient for the government to produce the information than for any other party to do so. This occurs most often when the creation of the information production is a byproduct of other government activities. Databases of government records such as national economic statistics, legislative records, court decisions, etc. Once such information has been created, it makes sense to make it publicly available via, say, online publication. With such widespread dissemination, private companies will not waste their resources duplicating government efforts. Instead, producers in the private sector can add value to the raw government information by re-packaging it, re-organizing it, or providing commentary on it. When government creation of information is not desirable Research that is directly appropriable via the existing system of intellectual property protection is probably not appropriate for government subsidization. As we have seen the patent system already provides incentives for such research by private parties.

Chapter 9 : Economics and Finance Research | IDEAS/RePEc

By coming up with new ideas on how to increase, say, the power of a microprocessor, humans can boost productivity, spawn new opportunities for profit, and ultimately drive economic growth.

The shadow chancellor is aware Labour needs to keep the markets on side. The Sunday papers are alive with stories that Theresa May is weighing up the possibility of seeking public support for her Brexit strategy. Voters could soon be trooping off to polling stations to elect a government for the third time in little more than three years. Given the disastrous result the last time the prime minister went down this route, it seems likely that May would only call a general election as a last resort. That said, the events of the past week mean that anything could happen. Labour is aware of that and will now be kicking itself that it spent the summer embroiled in an internal row about antisemitism rather than devoting all its attention to formulating policies and selling them to the public. The need to reach outwards is particularly important when your policy proposals are radical and the public mood is cynical, yet it was telling that Andrew Marr spent a lot more time on his BBC TV show questioning Jeremy Corbyn about racism than he did about what a Labour government would do in office. But Corbyn and the shadow chancellor, John McDonnell , believe there is something structurally wrong with UK capitalism that needs to be fixed. Reflation was part of the original AES, but it also included public ownership, economic planning, import controls, industrial democracy, price controls and hostility to what was then called the European Economic Community. This was the pre-globalisation era, but even back then supporters of the AES said multinational companies were gouging consumers through excessive prices, shifting jobs overseas and using transfer pricing to avoid paying UK tax. The similarities with current Labour economic policy are obvious. Certainly, McDonnell would end austerity and increase public spending. But, as with the AES in the s, the critique goes deeper. To an extent, this leaves Labour at the mercy of the financial markets. This argument â€” that public borrowing inevitably crowds out private investment â€” looks less compelling in the light of the massive increase in the budget deficit during and after the financial crisis, which occurred without any significant change to the interest rate paid on government bonds. An economic recovery based around high debt is really no recovery Larry Elliott Read more The need to keep the markets onside does, however, explain why McDonnell has no plans to abolish the operational independence of the Bank of England. There is a simple reason why he has been quietly touring City institutions in the past few months to sell his strategy to the bankers: There will be push back against the proposal to require firms that employ more than people to reserve a third of the seats on their boards for worker representatives and to put a chunk of their profits into employee ownership funds. Any Labour supporter who thinks the battle with these entrenched vested interests is going to be easy is kidding themselves. The power of capital â€” especially financial capital â€” is far greater than it was when the AES was being pieced together four decades ago. Are price controls on the public utilities consistent with using a stream of income from water and energy companies to pay the bill for re-nationalising them? There are those, on both the left and the right, who think this is all academic. The public, they say, did not buy this sort of radical stuff in the s and early s, and will not buy it this time either. This, though, might prove to be yet another false assumption. Thatcherism, a rightwing economic strategy, emerged out of the crisis of social democracy. Today it is conservative economics that is in crisis.