



## Confrontation of economic politics

Noralv Veggeland 

Inland Norway University of Applied Science,  
Postboks 400, 2418 Elverum, Norway  
Professor of Public Policy



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**Abstract:** Keynesianism is a national focused economic theory. The Keynesian theory builds on the assumption that prices and wages are sticky sizes evolves imbalance; high inflation or deflation follows. This in combination with various market crises, such as the current financial crisis, is suggesting that the market always fails, both in achieving full employment and avoiding crisis that affects unemployment. Thus, Keynesian argues that for an active state stabilization and labor market policy in the form of fiscal and monetary policies that can create just full employment and good business, while market deregulation and laissez-faire policies fail.

**Keywords:** Keynesianism, state intervention, business, neoliberal orthodoxy, marketizing, social democracy.

## Left side policy

As Canada overcame the Liberal Party with Justin Trudeau as prime minister in autumn 2015, with a social democratic politics. That party won with a clearly stated neo-Keynesian rhetoric, with the emphasis on the state's importance as a basis for its reform proposals for the revival of the welfare state after a destruction of this from a conservative government side. In the United States, emerged socialist / Social Democrat, Senator Bernard "Bernie" Sanders, as a popular democratic opposition candidate Hillary Clinton. In the UK, we see that the same thing happens with the British variety labor in opposition; Social Democratic British Labor Party. The choice of Socialist Jeremy Corbyn as party leader shows a completely new turn to the left. In Spain, Portugal, Italy and Greece, we see the same left shift; In Greece, Syriza won the elections and is the government position. The Norwegian social democracy, the Labor Party, follows not yet this political turn of left emergency, but it made efforts to get continued support of the right liberal political center around the Christian Democrats for power toward the general Parliamentary election September 2017. In the election, the Labor Party became a political loser regarding number of votes compared to 2013 election. On the other hand, the Labor Party is still the Norwegian greatest political party measured by number of voter support in general.



## Neo-Keynesianism

The reasons for this are many, but one sure reason is that Norwegian social democracy still lacks a basic economical alternative to the anti-statist neo-classical economic theory and policy, ideology manifests itself as what is called neoliberalism (Veggeland, 2015). Against this theory and policy is today a theory and policy approach referred to as neo-Keynesian. For social democracy, this policy approaches as an option. As the name suggests, it builds on the economist Keynes's momentous theory from 70 years back.

One of the main elements of John Maynard Keynes' major theory, "General Theory of Employment, Interest and Money" in 1936 in response to the inter-war depression and employment crisis, the need for States in times of crisis to "fill the hole" in the lack of overall demand rising, in particular demand for labor. In the thirties was 1/3 of the workforce available in Norway. Keynes' theory formed the basis for Norwegian Keynesian policy in the postwar years with the goal of full employment, which we got. Keynes pointed out that effective demand must be achieved by the government as it spends more money than what comes in through tax revenues. Bringing the public deficit in a period without provisions but the damaging effect of this is surpassed as the employment rate increases with increasing value creation as a consequence.

A new Keynesianism, based on the classic Keynesian theory, stressing the need for increased governmental, institutional and economic interventions as unemployment rises and the recession occurring nationally and internationally. While the classic variant designed for national policy is neo-Keynesianism besides targeting international crisis measures such as an action under the auspices of the EU and its Central Bank (ECB) (Binder, 2014).

Under the classic Keynesian models is the government intervention intended to spur long-term changes resulting from a national stagnation period. They are intended in an economic recession to create a macroeconomic balance between supply and demand with the government's help. Keynes focused the large cyclical fluctuations of capitalism, not the microeconomic fluctuations in institutional- and enterprise level, such approach emphasizes neo-Keynesianism. Inspired by neo-Keynesian thinking the government countercyclical policy was adopted in the United States. When the financial crisis came in 2007 with rising unemployment to more than ten percent as a consequence, granted the federal government the staggering sum of \$ 800-trillion dollar stimulus and demand measures. The goal was to create macro- and microeconomics demand to reverse the trend back toward normal economic growth. In 2016, unemployment as a result of this governmental intervention was just over five percent.

## Job creation by state intervention

According to the neo-Keynesian approach, it may involve both short-term and long-term government investments in activities aimed at job creation. This approach has unintendedly influenced the Norwegian social democratic opposition in Parliament. Its response to today's economic stagnation caused by the crisis in the Norwegian oil and gas sector and migration crisis with rapidly growing unemployment opposition demands to the government immediate action in terms of the development of public sector jobs, and emergency work as to plug the used oil wells in the North Sea. "Dig a hole," grave like into a hole in the earth to create employment, wrote Keynes in his theory. The incumbent government is characterized, however, by government inaction against rising unemployment and hoping for the market to settle with private entrepreneurs in the lead.

Austerity measures as precautions in the public sector and government inaction by the recession and rising unemployment denies strongly by neo-Keynesians. Tightening will result in further unemployment in a vicious circle. It does not help in the short term to reduce bank interest rates to zero as a means toward economic stagnation, they argue. For the lack of demand in the economy nationally and internationally prevents borrowing and investments regardless of interest rates. The use of tax policy with reduction of tax to increase investment is not an effective instrument for the same reason, they pointed out (see Ibid).

## Nobel Prize Winners

The two American Nobel Prize winners in economics, Joseph Stiglitz, and Paul Krugman are our time most famous exponents of the neo-Keynesian economic theory with its political diversions in combating the negative effects of crisis and recession. These two economists representing the academic prestige at a high level, the read and referenced, but has so far been partially rejected by those with political power in the EU and Europe. The rejection has been shown clearly in

connection with their published counterargument against austerity measures that the EU and IMF have imposed distressed countries like Greece. Counterarguments, their oversights. Now it seems the vision of the EU on the importance of governmental tools and interventions to change in the wake of refugee and migration crisis. The return of Keynesian policies in the new form, with a government friendly international solidarity perspective, hanging obviously along with that neoliberalism is on the verge of collapse in Europe as a result of the ongoing financial crisis, the euro crisis, and the refugee crisis

We see economists Stiglitz (2010) and Krugman (Krugman & Barro, 2010) currently in the process of adopting the same critical but central role played by the economist John Maynard Keynes, in the postwar years and created a theoretical basis for a political way out of the deep international economic depression culminating in 1929 and subsequent years. His theories were caught by European social democrats, such as the Norwegian Labor Party, and realized the successful policy of the first decades after World War II. The policy built in an active state, the state institutional, and economic interventions, social cohesion and increased public spending. For Keynes, this was necessary for a capitalist economy in crisis to restore and preserve the long term an aggregate effective demand and purchasing power with full employment as a goal. How could both unemployment and inflation be established at a low and stable level? The development of the Norwegian Keynesian welfare state in post-war years with universal rights, politically led by social democracy by AP, was an important element in the policy of maintaining stable effective demand in the economy as a whole. While social democracy could realize their ideas about social and economic cohesion and justice (see Nyseter, 2015).

Before Keynes dominated neo-classical liberal economic policies with an emphasis on public austerity, small government, and privatization. This should cure between postwar economic depression. Therefore, Keynes with their theories of an active state, in the beginning, gain a little attention, because he so disagrees with the classical liberal economic theory of policy tightening and a retracted state. In our time ruler also tightening and privatization policy in response to the EU / EEA area's financial crisis (which Norway is a part) and Eurozone debt crisis. Most clearly, the negative impact of this tightening and privatization policy in crisis-hit Greece and other Mediterranean countries. In Norway, pushing the blue government neoliberal approach to the problem of rising unemployment and migration crisis in direction; public austerity and privatization. The blue government neoliberal ideological stance and policy background for it.

In the international orthodox neo-classical setting is Stiglitz and Krugman given as little attention as Keynes was in the beginning. The practical reforms that logically follows their neo-Keynesian ideas and theories have sometimes drastic consequences, as seen in a neoliberal perspective. It would mean the liquidation of the privatization program and the return of privatized physical infrastructure such as railways, water, telecommunications, and social infrastructures such as kindergartens, schools, care of the state as owner and operator. It will mean extensive regulation of the financial sector, tax reforms, and financial transfers with the aim of social cohesion for greater purchasing power and justice, and finally with the possible increase in public spending as a consequence.

## **Neo-Keynesian confrontation with the neo-liberals**

The primary disagreement between new classical liberal and neo-Keynesian economists, with Stiglitz and Krugman as spokes men of the neo-Keynesian approach, is how quickly price and income (purchasing power) aligns itself in the market? The neo-classical economists assume that this happens in a flexible way, the supply and demand balances by themselves (invisible hand) and without unemployment and inflation occurring. New Keynesian economists reject this assumption and argue that this balance cannot improve market alone, but that the state interventions and regulations must politically ensure purchasing power, effective demand, and full employment. If not, inflation fueled inflation parallel with declining purchasing power in terms of unemployment, social dumping in employment and poverty. There arises a negative downward spiral. The consequence will be a socioeconomic crisis as we see it in Europe today, with declining investment, high unemployment and social deprivation in many countries.

A theory and policy alternative to neoliberalism theoretical foundation has social democracy today. Option located in the state focused neo-Keynesian macroeconomic approach, which now wins the vote in opposition politics in Anglo-American countries and Mediterranean countries in crisis. In Norway, social democracy in opposition – neo-Keynesian policy should fit their ideology and rhetoric towards the election in 2017.

## The Norwegian case

Market liberalism entered also into the political realities of Norway in the years of the 1980s. Today's blue Government in position is confident in its belief in neoliberalism, and leading active and unilateral policies deregulated free markets and the marketization of public services (see Veggeland, 2015a).

The tightening welfare state and provide tax cuts to the wealthiest, contrary to the Keynesian principle of social and economic cohesion as a justification for including the preservation of purchasing power and effective demand. Also, the social democratic coalition government policy between 2005 – 2013 was based on (light) neoliberalism. In the new Keynesian economic theory and policy, the Norwegian Social Democracy retrieves a foundation as it did in classical Keynesianism in the decades after World War II.

Norway is lucky and does not need Keynesian deficits in order to create effective demand and new jobs. Norway has oil fund, the Government Pension Fund – abroad with a market capitalization of 7,500 billion, which invests in 9,000 different companies in 75 countries worldwide. Today government money from the oil fund to partly unnecessary privatization of reception and settlement costing billions. It built up refugee profiteers of a Hero AS, which monopolize all operations from receipt, settlement, language training and employment services to their own private businesses. Winning ears as monopolists pushing prices up, and the state pays, with little stable employment gains resulting relative to the unreasonable expenditures. Otherwise, use the government oil fund to compensate for tax cuts in the state budget, as a long-term strategy for job creation. This is a passive misuse research shows has little effect on economic growth and increased job creation (More, 2014).

In Norway, job creation processes re-nationalized in line with a neo-Keynesian guide. The state must be an active investor in new government jobs in welfare sectors like health care, education and training, and in business, such a Keynesian approach assigns. Only then will you be able to employ the new hundred thousand migrants, plus the ordinary second hundred thousand unemployed, so they did it for between-war economic depression with Keynes' help. The establishment of state enterprises must no longer be a taboo strategy. In an era of green turning of economic production in the direction of new international markets, Norway can be a pioneer for a profitable, sustainable job creation policy, with migration crisis and growing unemployment as a starting point. Such a policy will again provide content for the rhetorical concepts necessary restructuring and innovation in the Norwegian economy.

## Short summary

It turns out not easy to refute the neoliberal orthodoxy, though we thus see such trends in Western capitalist countries seeking neo-Keynesian solutions. When the feudal system with the monarchy, the church and nobility were forced to their knees in Europe 250 years ago, there appeared an economic and political ideology directed against all monopoly power, also with a rejection of strong state power. This ideology came up with the well-known name of Market Liberalism. Its roots were classical economic theory from the 17th and 18th centuries. Just like rabbits conquered every corner of the Australian continent when it was introduced there, gnawed market liberalism down and soon spread to all the earth's cardinal points. The follower, the Neo-Liberalism is the dominant ideology of the Western capitalist countries of today. The Neo-Keynesianism and its state friendly theory for economic stability and job creation has picked up its gloves to fight the neo-liberal socioeconomic policy solutions. So far to some extent successfully in some countries like Canada. On the other hand, the case of the traditionally social democratic ruling system of Norway shows that the ideology of neo-liberalism has taken over the dominance among citizens as well as political parties.

**Further research** should come to find out more about the confrontation between Neo-Liberalism and Neo-Keynesianism, which these days is playing out its rhetoric and policies in the realm of nations and societies. It means giving priority to comparative empirical studies and case studies revealing processes and power constellations (Veggeland, 2017).

## Appendix A. Supplementary material

Supplementary data associated with this article can be found, in the online version, at <https://dx.doi.org/10.14254/jems.2017.2-2.6>.

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