

# THE DECLINE OF NEO-LIBERALISM AND THE RISE OF NEO-KEYNESIANISM: A CONCEPTUAL ANALYSIS

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## INTRODUCTION

*Our world needs a paradigm shift.*

**Etzioni**

*Neo Keynesianism is the most likely alternative.*

**Zevon**

Until now, there are still debates about effective ways to manage the nation-state economy in narrower scope and the world economy in a broader scope. The debates are not only between socialism and capitalism, but also concerning how much the state should play a role in economic activities. Actually, those debates illustrated that the competition between the state and the market is always colored the structure of international political economy. Functioning markets which allocates and distributes scarce resources have a mechanism that is very decentralized and individualistic. While, state serves to distribute power, which is the ability to influence or determine the outcome of an action/event. Thus the political (power) and economic

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(wealth) has a very close relationship since the implementation of power in general affect resource allocation and distribution.<sup>1</sup>

Competition between state and market produces many variants of theoretical/concept in the context of the global political economy. There is concept that “wants” market authority over state authority (ex. liberalism); there is concept which is more “wanted” by state authority over the market (ex. mercantilism), and there are many others who try to combine the understanding between them with a distribution formula of specific authority.<sup>2</sup>

Interestingly, the liberal concept itself appears in different variants. Starting from the ideas of classical liberalism – which is proposed by David Ricardo – the variants development of liberalism are delivering dynamics that are very interesting to be studied. Classical liberalism certainly gives a very big space to the market. However, the development of classical liberalism began to be abandoned and the people turn to Keynesianism with its Bretton Woods System (BWS).<sup>3</sup> To the Keynesians, the state is required in order to encourage economic growth and to cover market shortages.<sup>4</sup>

This concept immediately evicted by Hayek and Friedman with their neo-liberalism. Their ideas are inspired by the spirit of classical liberalism where state is prohibited to interfere with market. This concept grows rapidly because of the supports from Margaret Thatcher, Ronald Reagan and also *Washington Consensus*, which suggested the principles of neo-liberalism. For this conservative, liberals state intervention will lead to distortion and make the world

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<sup>1</sup> STRANGE, Susan. *States and Market*, London: Pinter Publishers, page 24-32. 1989.

<sup>2</sup> *Ibid.*

<sup>3</sup> The discourse of this thought can be seen (for example) in the post World War II when the U.S. government is encouraged to have the Council of Economic Advisors who provide input on various U.S. macroeconomic management

<sup>4</sup> GILPIN, Robert. *Global Political Economy: Understanding The International Economic Order*, Princeton & Oxford: Princeton University Press, page 69-70. 2001

economy can not run effectively and efficiently. Therefore, they delegates those mechanisms to the market virtues and always try to keep the state doesn't "pollute" the market.

The emergence of various ideas that tend to criticize the neo-liberal voiced louder, in general, no longer believe in the conceptions of neo-liberal. This refers to the many unsuccessful phenomenas of political economy and the downturn of neo-liberal schemes.

The present global economic crisis increasingly emphasized such criticisms. They believe that this crisis is caused by the freedom of the market which is too excessive, so the state no longer has the authority to control market failures. Prescriptions offered by the neo-liberal international institutions (such as IMF, World Bank, etc.) to overcome the global economic crisis is also considered as an aggravating to the situation.

Actually, criticism has touched many aspects, ranging from the public sphere, academic realm, as well as policy-making sphere. In the public sphere, the community began to be irritated by the policies wich are based on market, as an example, a social movement that was succeeds to thwart the negotiations of the World Trade Organizations (WTO), in Cancun, and various anti-IMF demonstrations in the world. In the academic sphere, has developed various criticism ideas. Various international journals and publications have led to pessimistic position on the ideas of neo-liberal. Brief example was the election of Joseph Stiglitz and Paul Krugman as the winner of Nobel Prize of economics, in 2001 and 2008. Stiglitz and Krugman have been known as critics of neo-liberal policies.

While in today policy-making realm many governments no longer believe in neo-liberal concepts, this can be clearly reflected by the *pink-tide* phenomenon in Latin America, *welfare state* in the Scandinavian countries, *developmental state* in East

Asia and much more. Even more surprising, the EU leaders, such as Nicholas Sarkozy, Angela Merkel and Emmanuel Barroso, also began to propose a new global political economic order that is more accommodative for state control.

Those phenomenons may actually indicate a chance to the return of Keynes spirit in the global political economy. This ongoing trend is very interesting to study, because the world need best recipe for its governance that is able to save them from the crisis. Also, if it is true that Keynes thoughts began to be adopted by world society, so this phenomenon can be said as the spread of neo-Keynesianism that would continue the cycle of global political economic governance that evolve with changing times.

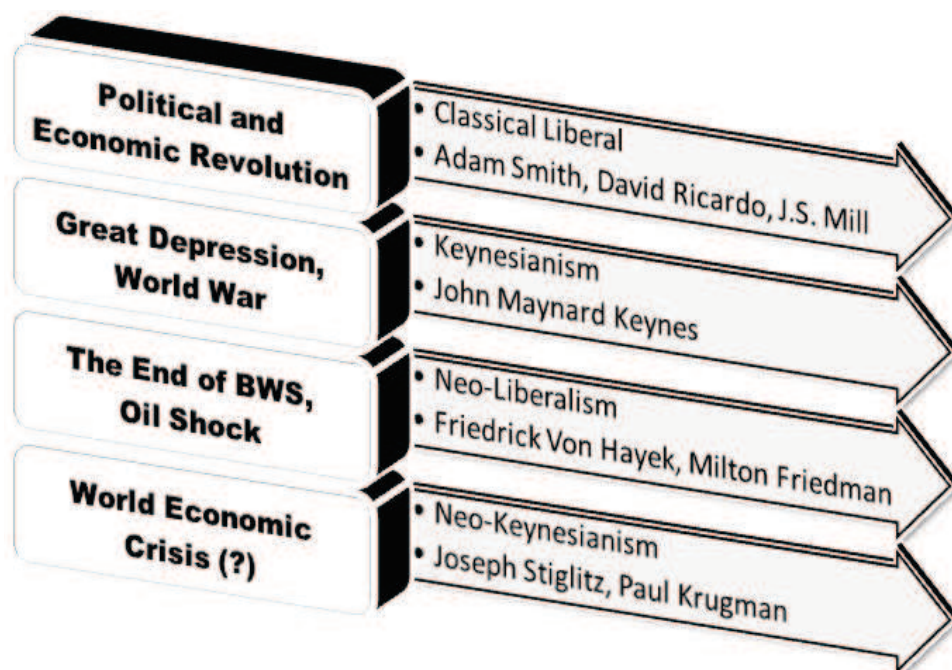
From this background, we can see that liberal thought is always dynamic and at a time will shift from one variant to another variant. Various growing phenomenons are important to show shift tendency from one variant to another. Including how the neo-liberal ideology got many sharp criticisms and neo-Keynesian concept began to emerge as an alternative during this crisis.

### **NEO-KEYNESIANISM: an alternative idea**

Many leading economists have a bid proposal to create a neo-Keynesian political economy globally. Those persons such as former World Bank President Joseph Stiglitz, a Harvard University development economist Jeffrey Sachs, Nobel Winner Laureate James Tobin, and global financier George Soros. Their proposals revolve around the introduction of a global tax on currency speculation (the Tobin Tax) and also the establishment of global central bank to control international capital. The main objective of this proposal is took part in the current regime “beggar thy neighbor” in which

countries compete to offer their best investment opportunities for free-floating capital by involving the role and control of all states in investment (from environmental issues, labor, until Human Rights regulations). The most important thing is the control of global neo-Keynesians can also contribute to reverse the global economic polarization.<sup>5</sup>

The description about dynamics of liberal thought has become very important, especially by examining the existing pattern. The pattern in here is how these ideas, which are variants of liberalism, shift from one to another. This ideas' transformation process is interesting to be studied in the context of the global economy, considering that, until now, the progress of liberal ideas still continues. To answer this requirement, the general insight is not enough. The following paragraphs will discuss about the ideas that has developed so far.



**Graphic 3.** The dynamics mapping and the shift of liberal ideas.

<sup>5</sup> *Ibid*, access on 3 Mei 2009

Neo-liberal idea, which is promoted by Hayek (1949) and many other leaders, is now starting to be questioned about its ability to address contemporary global problems. In line with the weakening of neo-liberalism, the discourses of alternative ideas arise. One of the alternative popular ideas today is neo-Keynesianism. The important thing is the discourse process of another idea (especially neo-Keynesianism) as an alternative of a neo-liberal concept that is still considered dominating the global political economy.

Nevertheless, the global neo-Keynesianism could not be construed as an end-point in the political economy development. This assumption is too early or too fast because of internal contradictions in the experience of national Keynesianism, while global community will find a new systemic logic. However, until now, the global neo-Keynesianism is the most likely alternative in the midst of battle of ideas that still continues.<sup>6</sup>

## **KEY FIGURES OF NEO-KEYNESIANISM**

In the book *The Return of Depression Economic*, Paul Krugman (2008) predicted there will be a time of crisis due to unlimited liberalization. He said that the world economy has turned out to be a much more dangerous place than we imagined.<sup>7</sup> Krugman's prediction seems proved. Many economic observers assume that recent global economic crisis shows how vulnerable the building of neo-liberalism is. While, according to Kholid Syeirazi

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<sup>6</sup> ZEVON, Warren. *Global neo-Keynesianism, Toward a New Exterior Logic: Global Neo-Keynesianism (An Integral Political Economy)*, 2007. In: <http://panendeism.userboard.net/integral-panendeism-forum-f1/global-neo-keynesianism-t61.htm>. Access on May 5, 2009

<sup>7</sup> KRUGMAN, Paul. *The Return of Depression Economics and The Crisis of 2008*, W. W. Norton. 2008.

(2009), the crisis caused by a combination of moral hazard in the financial industry of Wall Street and “closed eye” attitude of the financial market authority, monetary and governments have been unable to fully control the flow of shares.

Meanwhile, Stiglitz (2005), in his book *Globalization and It's Discontents*, states that globalization, as a product of neo-liberalism, didn't help poor countries. Due to globalization, the world public revenue was not increasing. This opinion is in line with the opinion of Amitai Etzioni (1988), in *The Moral Dimension: Toward a New Economics*. According to Etzioni, the today world requires a paradigm shift in order to save humanity from the dangers of poverty, backwardness, illiteracy and unemployment. Thus the new governance is needed to address contemporary global challenges.

The description above is an evidence of thought emergence to re-strengthen the role of state to maintain market stability brought by the agency or agent. The agents' idea was in line with Keynes' thought, who tried to balance between role of state and market. Of many figures that are anti neo-liberal and tend to pro-Keynes, Stiglitz (2005) and Krugman (2008) adequately represent this thought.

## **1. Paul Krugman**

Paul Krugman has full name Paul Robin Krugman was born on February 28, 1953, in Long Island, New York, from a Jewish family. In 1974, he graduated in economics from Yale University and, in 1977, he received an honorary doctorate from the Massachusetts Institute of Technology (MIT).<sup>8</sup> His area of study is international economics, including international trade, economic geography, and

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<sup>8</sup> *New York Times*, Columnist Biography: Paul Krugman. In: <http://www.nytimes.com/ref/opinion/KRUGMAN-BIO.html>. Access on April 29, 2009

international finance. During the development, Krugman activities focused on academic activities, especially became faculty member at several leading universities such as Yale University, MIT, Berkeley, London School of Economics, and Stanford University. While at Princeton University, he became a professor in economics and international relations.

By looking at his theory and views, Krugman can be classified as an expert in neo-Keynesianism. He always believed that the economy can not be separated from politics and justify state intervention in managing and stimulating the economy. For example, Krugman recognizes the role of labour unions in wage determination. He argues a decent minimum wage is not always cause unemployment. Health services for the citizens must also not hand over entirely to the market. Whereas in the case of taxes, he is a pessimistic figure that is against the assumption that tax cuts will bring positive impact to the economy.

Krugman is known as a critic of President George Walker Bush. According to him, the budget deficit of Bush Government that is resulted from a decrease in taxes, increase public spending and the invasion of Iraq in the long term should deliver large economic crisis. This opinion was proved by the global economic crisis that begins from the United States. In the midst of the crisis, Krugman openly supported Barack Obama, a democratic party elected president, whose policies lead to strengthening the role of the state.

In explaining the current crisis, Krugman began by re-review relation of excess capital relativity compared with the amount of labor, or the relativity of excess employment compared with capital. These papers rely on theories that can be grouped into an introduction to the causes of economic crises associated with economic structure meaning of relative lack of capital or a relative shortage of labor.



In the economy of a nation which structure relative surplus of labor, the crisis in general is caused by overinvestment, so that prevention can only be done during hausse or boom is ongoing. There must be recognition that the economy heats up and investment tensions larger than savings. These countries can not do anything except to use the opportunity during the recession for establish itself in the economical organization. Conversely, the crisis of states which are economic structure characterized by relative excess capital is caused by underconsumption. So if a crisis occurs and is followed by a recession or even depression, consumption and investment was encouraged which is named prime pumping. From this case, the Keynes formula is the most appropriate.

In his book entitled *The Return of Depression Economics and the Crisis of 2008*, Krugman said that many leading economists who said that theories about business cycles are not too relevant anymore because they felt that the knowledge of economic science has advanced, so the world does not need to worry about business cycle volatility.

In contrast to this view, Krugman believes that the economic tidal wave is still fully valid. He argued with examples, such as Latin America in the 1980s, Japan, in 1990 and the crisis in Asia, including Indonesia, which started in 1997. However, he assumes that recessions and depressions can always be solved or softened.<sup>9</sup>

Krugman warns that, in 2003, the Nobel Prize winner Robert Lucas told the annual meeting of the American Economic Association that the business cycle still exists. But precisely because the business cycle can be tamed, then world does not need to worry anymore.

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<sup>9</sup> GARRISON, Roger W. *Paul Krugman on the Austrian Theory of the Business Cycle*, Auburn University

Thus, the current focus is better directed at long-term economic growth. In contrast to these opinions, Ben Bernanke (now serving as Governor of Central Bank of the United States), in 2004, saying that macroeconomic policies have succeeded in controlling the business cycle, so its presence is only a minor annoyance, not a major issue.<sup>10</sup>

Although there is still a long debate on this issue, Krugman continues to believe that the recent crises are very similar to the depression of 1930, so that optimistic statements as proposed by Robert Lucas, Ben Bernanke and Alan Greenspan are also extremely unreasonable.

What I mean by depression economics is a situation in which Uncle Alan [Greenspan] can't save us. In every recession - and we've had lots of recessions - the head of the Federal Reserve cuts interest rates, the recession ends and things come back. Depression economics is a situation in which normal anti-recession medicine no longer works. That was true in the 1930s, it was true of Japan in the 1990s, it was true in a lot of developing countries and now it's true for us.<sup>11</sup>

However, he was not overly pessimistic about the prospects to control recent crisis and recession. According to him, in this globalization era, most active input is money or capital. So there is no shortage of capital relative to labor or labor shortages relative to the structural capital. The fact is in one country and within certain period of time, investment is greater than investment capital available for loans, either domestic or foreign, but it is not national saving by its own people. These comparisons indicate that economic condition is *baisse* or *hausse*.

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<sup>10</sup> KRUGMAN, Paul. *The Return of Depression Economics and The Crisis of 2008*, W. W. Norton, page 9. 2008.

<sup>11</sup> GROS, Daniel. *The Money Culture, 'Depression Economics' Nobel Prize-winner Paul Krugman on America's financial crisis*, 2008. In: <http://www.newsweek.com/id/171871>. Access on May 3, 2009

So if all the countries experiencing capital shortages as now, it will be recession everywhere. The cause is not limited capital, but existing capital is saved or there is a massive hoarding. Banks that gives credit is creating account deposits and when credit is refund, there is money destruction. Therefore, there is liquidity tightening or credit freeze or liquidity squeeze.

The question for each economist, including Krugman, is how world leaders overcome this crisis. For him, a tidal wave of economic or business cycles or conjunctuur that stick to market mechanisms system is no longer denied. But the most interesting new thing is the relationship between one country to another, and much money is accumulated from technological and economic progress that creates value added in large quantities. China, for example, has proven that they have great ability in net exports. Thus the equations developed by neo-Keynesianism as Krugman is as follows:

$$Z = C + I + G + (X - M)^{12}$$

By taking example of China's case, C, or consumption, is driven by pumping purchasing power of very large poor people. To meet the growing needs of its people as well as meet the world needs, new companies must be established and old companies are expanded, which means that I or investment will increase and doubling the growth through what is called *multiplier effect*. Its government which is still controlled bulk of these companies will have more ability to build infrastructure. This means G, or Government Spending rose. While net exports ability has proven that to create China's foreign exchange reserve is more than 2 trillion U.S. dollars.

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<sup>12</sup> KRUGMAN, P.; OBSTFELD, M. *International Economics. Theory and Policy*, 7th edition, Boston: Pearson Addison-Wesley, 2006.

This fact should make the world more optimistic to face economic recession. The amounts are bigger than the great depression of 1930, but the ability of states and nations have also incredibly developed. These countries also have accumulate great purchasing power to do prime pumping and create economic jump start in developed countries, no matter how great depression is, morale and psychology have large role in recent recession.

What about his views on international pro neo-liberal institutions such as IMF? Krugman states that IMF and U.S. Treasury Department must take responsibility for the crisis in Indonesia, or they are mishandled it, so the crisis becomes more severe. When IMF was invited to help Thailand, Indonesia and Korea, they immediately suggest and encourage these countries to raise taxes, reduce spending to avoid large budget deficits. It is very difficult to understand why these policies became IMF program in three countries, because no one except IMF thought that budget deficit is a problem. And it turns out that IMF policies have two negative impacts. First, recession worsened because of declining demand. Secondly, things were out of control causing panic.<sup>13</sup>

Besides, IMF also requires structural reforms that transcend field boundaries of monetary and fiscal policy as a condition of obtaining a loan from IMF. Closing banks is irrelevant to tackle the crisis. Others, such as demanding the Indonesian government to remove monopoly provision by President Suharto to his cronies which is have nothing to do with the mandate and authority of IMF. Giving monopoly of cloves to the two entrepreneurs is a bad thing, but it has nothing to do with mistrust of the Rupiah which make its exchange rate plunged.<sup>14</sup>

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<sup>13</sup> KRUGMAN, Paul. *The Return of Depression Economics and The Crisis of 2008*, W. W. Norton, 2008.

<sup>14</sup> *Ibid*, page 115-116

When financial crisis that struck United States began global, he mentioned tendency towards great depression like the 1930s. Then, he urged that the world leaders, especially Europe, take immediate action to stop the global financial crisis. Accordingly, he criticized the bailout reimbursement worth U.S. \$ 700 billion, which was initiated by Bush. He affirmed that Bush's efforts to buy up troubled stocks will not solve crisis, because it was conducted without clear direction.

These opinions emphasize identity of Krugman as a scientist with pessimistic view in academic circles. He also illustrates, world economic crisis is started from the periphery countries such Mexico in 1995. Then shift to East Asia in the period 1997-1998 and continues to Brazil and Russia from 1999 to 2000 period. Finally, crisis swept the world economic centers such as United States and Europe. It is characterized by bankruptcy of United States giant corporate, such as Bear Stearns, Northern Rock, Fannie Mae, Freddie Mac, and Lehman Brothers.

In previous work, Krugman has also tried to explain the causes of global economic crisis. He argues that the crisis was mainly triggered by the emergence of bubbles economy due to the seven modes of thinking and habits of global investors. According to him, this seventh model is a short-term thinking, greed, easy to trust other people who actually can not be trusted, follow the signs as a group, underestimate the problems, use beliefs' propaganda, and speculate with other people's money.<sup>15</sup>

## **2. Joseph Eugene Stiglitz**

Joseph Eugene Stiglitz was born in Gary, Indiana, United States, on February 9, 1943. He was educated at Amherst College in

<sup>15</sup> KRUGMAN, Paul. *The Great Unraveling*, W.W. Norton & Co. 2003.

1960-1963 and continued his education at the Massachusetts Institute of Technology (MIT), in 1964. While doctoral education undertaken at Cambridge University, from 1965 to 1966. Stiglitz's career was increase both in education and practical political (by occupying several positions in government). In the field of education, he became a faculty member at the Massachusetts Institute of Technology (MIT), Yale University, and at the Graduate School of Business, Columbia University. He was also a Member of the Advisory Board for the Oxford Council on Good Governance. In the field of government, he became Chairman of the Board of Economic Advisors of United States President in the reign of Bill Clinton from 1995-1997. His career is increased at the international level, became Senior Vice Chairman and Chief Economist of World Bank from 1997 to 2000.<sup>16</sup>

Besides being editor of Journal of *The Economists Voice* with Bradford DeLong and Aaron Edlin, Stiglitz also wrote several books such as *Whither Socialism, Globalization and Its Discontents* and *The Roaring Nineties*. The highest achievement was when he received the Nobel Prize in Economics, in 2001, along with George Akerlof and Michael Spence. With his thought, which is not trust the free market, Stiglitz can be categorized as a neo-Keynesianism economist.

In the book *Globalization and Its Discontents*, he asserted that International Monetary Fund (IMF) put the interests of the largest shareholder (United States) above poor countries that are should be assisted. In this book, Stiglitz also offers several reasons why globalization has caused public outrage, as happened in Seattle and Genoa.<sup>17</sup> For Stiglitz, the capitalist economic system may be regarded as the best economic system man has ever built. However,

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<sup>16</sup> ARNOTT, Richard; GREENWALD, Bruce; NALEBUFF, Barry. *Joseph Stiglitz and Economics for an Imperfect World* (Introduction to "Economics for an Imperfect World: Essays in Honor of Joseph Stiglitz"), Massachusetts: MIT Press, page 1, 2002.

<sup>17</sup> STIGLITZ, Joseph. *Globalization and Its Discontents*. Book review. 2002.

no one has ever asserted that this system also led to instability. The economic crisis is one of capitalism products that currently come faster. In fact, in the last thirty years there has been more than a hundred times of crisis. This indicates a serious weakness of capitalist economic system. The economic system of capitalism which states role of government should be negated in market competition is very unreasonable. This is only possible if there is same level of information. He worried about the existence of asymmetric information that cause anything is not on actual condition. Therefore, government intervention in market economy is needed.

Stiglitz always criticize theory that declares market will run perfectly if there is no state interference. He believes that countries are still needed to maintain stability. Therefore, he believes that countries that follow capitalist system a la the United States, one day will experience economic collapse. This belief is proved by current world economic crisis. During this crisis, almost all countries in the world should intervene to market.

The current global economic crisis is sourced from subprime mortgage crisis in the United States and then spread to other countries. This clearly shows the weakness of liberalization (globalization) and market failures. One of the most obvious examples is when international financial system is liberalized, and then capital that has been circulating throughout the world and has a transnational network (without the control of the country) will be the impact channel of the economic crisis. From the perspective of United States, it can be viewed as positive side because in the end the impact of crisis is borned by almost all countries in the world.

According to him, the current crisis resulted from markets carelessness and exacerbated by government policies. However, he also criticized U.S. government's actions that made the bailout of financial institutions and inject stock market. For him, bailout just

likes giving a blood transfusion to patients who experienced bleeding. Transfusion will not mean anything because the cause of the bleeding was not treated. Thus they need take several steps for example by convert house's financing with reduces loan value when housing prices fall through cashable tax credit. Make good economic stimulus such as insurance for unemployed and good infrastructure investment in the future. Infrastructure investment will stimulate the economy in the short term and improve long-term economic growth rates.

Furthermore, Stiglitz said U.S. financial crisis that spread into global financial crisis even worse than Great Depression in 1930s. This crisis brings tremendous impact to the capitalist countries and its followers. On the other hand, countries which over the years rejected American invitation to participate in its economic model, proved to be less affected by current global financial crisis. Director of the Peterson Institute for International Economics, Fred Bergsten pointed out that one of the countries is China.

Stiglitz explicitly express criticism of liberal-leaning policy holders/capitalist. According to him, current subprime mortgage crisis is a disorder caused by the carelessness of Central Bank governor Alan Greenspan. Stiglitz's critique is quite surprising because Greenspan is known as economic figures that clear in his utterance and policy. Even the market often moves in accordance with his direction. Thus market has no doubts about Greenspan.<sup>18</sup>

Beside sharply criticize the government's economic policies; Stiglitz also conveyed his criticism to President George W. Bush. According to him, Bush made U.S. got insulted with his various policies, such as refusal to sign Kyoto protocol and the invasion of Iraq. In his book *The Three Trillion Dollar War* (written with Linda

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<sup>18</sup> STIGLITZ, Joseph . Greenspan, Bush Errors Finally Come Home to Roost, *Economist View*. 2007.



Bilmes), he argued that the Iraq war has contributed to the slow U.S. economy and also prevent its recovery.<sup>19</sup> The almost five year's war has been spent costs directly from the U.S. Treasury Department at 845 billion dollars. However, Stiglitz and Bilmes argue that the actual cost of the war could reach three trillion U.S. dollars. These direct costs excluding interest debt to finance the war, health care costs for veterans, and the cost of replacing equipment destroyed or damaged by the war. Not to mention cost that is not counted in the budget such as rising oil prices and also macroeconomic and social costs.<sup>20</sup>

How about Stiglitz's views on international institutions like IMF, WTO and World Bank? He is renowned as a critic of international institutions. According to him, these institutions are a continuation of U.S. government ideology that tends to support globalization, liberalization and privatization. "Washington Consensus" ideologies are trying to be disseminated through IMF to the governments of developing countries. By the time they need help, they must accept the IMF intervention.

In fact, the formula offered by IMF met many failures. This can be seen in the case of Latin America and East Asia. Countries which reject presence of IMF, such as South Korea and Malaysia were faster to recover from crisis than Indonesia and Philippines, which is subject to the prescriptions of IMF. IMF lending rate is too high and monetary policies that implemented to suffered countries are contradictive, on the other hand expansionary economic policies are implemented in the UK or France. This loanable fund is likely to weaken the economy and ultimately makes countries more difficult

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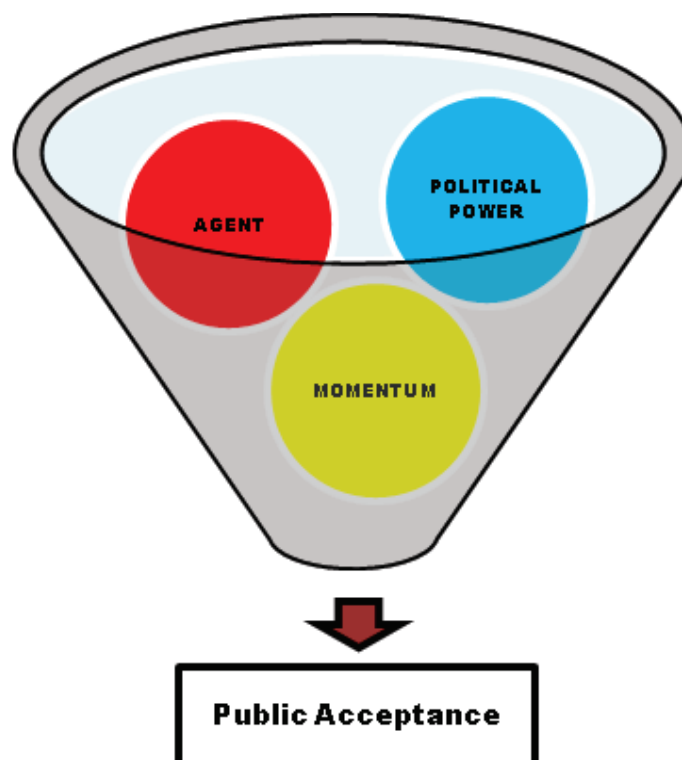
<sup>19</sup> STIGLITZ, Joseph; BILMES, Linda. *The Three Trillion Dollar War, The cost of the Iraq and Afghanistan conflicts have grown to staggering proportions*. 2008,. In: [http://www.timesonline.co.uk/tol/comment/columnists/guest\\_contributors/article3419840.ece](http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article3419840.ece). Access on May 2, 2009

<sup>20</sup> *Ibid*, Access on May 2, 2009

to pay back the loan funds. He cited that there has been a big mistake in this decade's economic policies even in the case of the East Asian crisis management.<sup>21</sup>

In other cases, IMF has allocated loans worth 16.4 billion U.S. dollars to Ukraine, 7.6 billion U.S. dollars to Pakistan and 2.1 billion dollars U.S. to Iceland to assist those countries in overcoming the impact of recent global economic crisis.<sup>22</sup> Stiglitz warned that IMF policies in Pakistan could increase support to Taliban militia and said that this international financial institutions could prevent democracy by restricting government roles.

### **IS THIS THE SHIFT OF NEO-LIBERALISM TO NEO-KEYNESIANISM?**



**Graphic 6.** Idea Distribution to Major Idea

<sup>21</sup> STIGLITZ, Joseph. *Information and The Change in The Paradigm in Economics*, New York: Columbia University, page 474. 2001.

<sup>22</sup> Antara News, *Stiglitz: Pinjaman IMF Justru Lemahkan Negara yang Dibantu*, 2009. In: <http://www.antara.co.id/view/?i=1233102907&c=EKB&s>. Acces on May 2, 2009

According to the research I've done before, at least there are four factors that determines the process of shifting of economic ideas: namely momentum, agents, political power and public acceptance of new ideas. The momentum is not just a change in balance of world power, but it also can be specifically economic crisis or a chronic crisis of world politics – chronic economic crisis is such as malaise (depression), from 1929 to 1930, and the 1970s oil shock era, while the political crisis is such as when the world experienced war in 1930-1940s eras.

The next important thing is the presence of actors who try to improve the discourse of an idea. Giddens calls this as agent. The actor in this context can actually be divided into intellectual actors (such as scientists, the epistemic community, and other academics) and non-intellectual actors (such as interest groups, social movements and individuals/other non-intellectual groups). Figures which clearly had an impact usually came from intellectual circles, and therefore it can be considered that intellectual actors are the milestone bearer of a discourse/ideas. The role of Smith (1964), Hayek (1949) and others can not be doubted.

The next thing is the existence of certain political forces that reinforce/expedite the process of ideas' discourse. A study of political power as an important part of idea's discourse has been widely applied. For example, the studies by Giddens (1979), Hill (1989) and so forth. Political power is very important because at least will legitimate adaptation of an idea. The most interesting example was when Thatcher and Reagan approved the idea of Hayek (1949) and Friedman. In the end, ideas of those intellectual leaders are legitimized in the political sphere, therefore has power to be implemented in the practical sphere. This also marked the public acceptance of the idea, so this idea can be considered truly dominant.

Thus, the four points above are closely related each other, even under certain conditions all three can work together and support each other for the success of an ideas' discourse. However, there is a tendency that momentum provided "an opportunity" to intellectual actors to reinforce the idea. After the idea get a special reception from the public or the political elite, then that idea can be legitimized through the existing political forces. Ultimately, these ideas can become a dominant idea in certain scope.

What about the idea of neo-Keynesianism? This idea does have a big potential to become a dominant idea in the world in this contemporary era. These opportunities must be seen from the four points that have been identified previously. If seen from momentum that supports neo-Keynesianism discourse, thus current financial crisis may be appropriate to support that. Meanwhile, if viewed from the aspect of "intellectuals", Paul Krugman (2008) and Joseph Stiglitz (2008) could be the key actors considering the fact that both received Nobel Prize in economics, like Hayek and Friedman, who are the bearers of neo-liberalism. Furthermore, the political power (can be from above or from below/bottom-up and top-down) that supports this idea is not really as big as political forces that support ideas of neo-liberalism in the past. However, this political power has begun to be seen with planning of *BWS* Part 2 by European leaders and the adoption of some Keynesian ideas by elected U.S. President, Barack Obama. Finally, how this idea became accepted by society is still a big question and should fight continuously by the agents.

Thus, the momentum of global financial crisis is chronic enough to be used by intellectual actors to strengthen its position in ideas competition. If these efforts continue to be done, then the opportunity to gain acceptance from society will be even greater. This shows the political clout to support idea's discourse also

intensified. All these efforts will continue until the point where the idea of neo-Keynesianism get political support and gain legitimacy for implementation in the practical sphere. By looking at these developments, the chance of a neo-Keynesian idea to become dominant is actually quite large. Nevertheless, this opportunities still require a long process due to several factors like the weakness of movement by agents, limited political power that gives support and also weak acceptance of society.

## **CONCLUSION**

Liberal thought is always experiencing dynamics with regular pattern. That pattern describes competition between state and market that continue to compete for strategic and dominant position in the international political economy. Competition between state and market is not only reflected in the debate between liberal thinking with anti-liberal ideas (such as structuralism and mercantilism) alone, but is also reflected in the variants that evolved in the dynamics of liberal thought itself.

In the contemporary era, the idea of Keynesianism is raised again to address global challenges that are difficult to solve by the neo-liberals, including the formula offered by Hayek. This idea is more “easily” accepted by society because the world is currently experiencing a severe economic crisis so that people need an alternative idea to overcome this problem. This development is inseparable from the role of figures that represent the pro-Keynesian who always strive for acceptance of these ideas in various spheres such as Joseph Stiglitz and Paul Krugman. This effort will continue until the point where the idea of neo-Keynesianism get political support and gain legitimacy for implementation in the practical

sphere. Unfortunately, the public acceptance of this idea is still very weak. By looking at these developments, we can conclude that the chance of spread of neo-Keynesian idea is quite large.

However, to become a dominant idea, this idea still have to pass a long way considering the lack of unity of actor, weak political support, and lack of society acceptance. Thus in this contemporary era, domination of Neo-Liberalism and Hayek's ideas are starting to get the challenge from alternative ideas, including the Neo-Keynesianism.

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## ABSTRACT

Liberal thoughts have always experienced dynamic movements by giving birth to varieties of thoughts within the liberal thought itself. This is expressed on the development of this thought from the idea of classical liberalism, Keynesian political economy, and also Hayek's ideas which remains the dominant idea until this current time. However, in the development of the contemporary global political economy, the neo-liberal thought has started to receive a strong criticism. This article thesis focus on analytical ideas that will then be the tools to analyze the opportunity of the spread of the neo-Keynesianism idea in the dominancy of

Hayek's Ideas. In the contemporary era, the Keynesianism idea is being brought back to the surface in order to answer various global challenges which are difficult to be solved through neo-liberal schemes. This idea is considered "easy" bearing in mind how the world is currently at a massive economic crisis which requires the people to have alternative ideas in order to solve their problems. This development depends also on the part of the actors/agents who represent those who are pro-Keynesianism, such as Joseph Stiglitz and Paul Krugman. This effort will keep on being continued up to a point where the neo-Keynesianism ideas gain the political support and legitimacy to be implemented in the practical fields. This opportunity still requires a long process due to various factors such the limited supporting political power and the people's acceptance which can still be considered very weak.

**KEYWORDS:** Neo-keynesianism. Development. Political power.

## RESUMO

Pensamentos liberais têm experimentado sempre os movimentos dinâmicos, dando origem a variedades de pensamentos dentro do próprio pensamento liberal. Isso está expresso no desenvolvimento deste pensamento a partir da ideia do liberalismo clássico, em que tanto na economia política keynesiana, como também nas ideias de Hayek, permanece o pensamento dominante até o momento atual. No entanto, no desenvolvimento da economia política contemporânea global, o pensamento neo-liberal começou a receber uma forte crítica. O foco desta tese é sobre ideias analíticas que serão, então, as ferramentas para analisar a oportunidade da difusão da ideia do neo-keynesianismo na dominância de ideias de Hayek. Na era contemporânea, o pensamento keynesiano está sendo trazido de volta à superfície, a fim de responder a diversos desafios globais que são difíceis de serem resolvidos por meio de esquemas neo-liberais. Esta ideia é considerada "fácil", tendo em mente como o mundo está atualmente em uma enorme crise econômica que exige que as pessoas tenham ideias alternativas, a fim de resolver seus próprios problemas. Esse desenvolvimento depende também da parte dos atores/agentes que representam aqueles que são pró-keynesianismo, como Joseph Stiglitz e Paul Krugman. Esse esforço vai ser continuado até um ponto em que as ideias neo-keynesianistas ganharem o apoio político e a legitimidade para serem implementadas nos campos práticos. Essa oportunidade ainda requer um longo processo devido a vários fatores, tais como o limitado e sustentado poder político e a aceitação das pessoas, o que ainda pode ser considerada muito fraca.

**PALAVRAS-CHAVE:** Neo-keynesianismo. Desenvolvimento. Poder político.