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HOW DEEP IS THE CRISIS OF NEOCLASSICAL POLITICAL ECONOMY?

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Abstract: The paper aims to explain how deep the ongoing crisis of neoclassical political economy – NCPE is and if this crisis can be overcome through an inside-out change. For this purpose, the paper first investigates the roots of this crisis across the NCPE's epistemological, economic, and political axioms at the level of theory. The paper then analyses the practical implications of this theoretical investigation with reference to the US model of political economy, including a comparative account of this model with the German model in terms of the commonality or variety of the NCPE's impact on liberal and illiberal countries. The paper concludes that the NCPE's ongoing crisis is an epistemological and systemic one emanating out of its flawed theoretico-practical pillars and that this crisis cannot be overcome through an inside-out change due to the inter-blocking dynamics of these pillars.

***Keywords**: Neoclassical economics, neoliberal politics, global economic crisis, economic policy*.

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NEO-KLASİK POLİTİK İKTİSADIN KRİZİ NE KADAR DERİN?

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Öz: Bu çalışma neoklasik ekonomi politiğin-NKEP devam eden krizinin yapısal derinliğini ve krizin neoklasik modelin kendi politika araçları ile aşılıp aşılamayacağını açıklamayı hedeflemektedir. Çalışma, ilk olarak, anılan krizin temellerini neoklasik teorinin epistemolojik, iktisadi ve siyasal dinamikleri çerçevesinde ve teorik ölçekte irdelemektedir. İkinci olarak ise bu teorik analizin pratik içerimlerini ABD'nin ekonomi politik modeline referansla açıklamaktadır. Bu analiz, ayrıca, NKEP'nin liberal ve liberal olmayan ekonomiler üzerindeki etkisinin ortak ve farklı içerimlerini açıklamayı amaçlayan ABD ve Alman modelleri arasındaki bir karşılaştırmayı da içermektedir. Çalışmada, NKEP'nin devam eden krizinin sorunlu teorik ve pratik dinamiklerinden kaynaklandığı ve bu dinamiklerin sistemik bir değişimi bloke eden özellikleri nedeniyle anılan krizin NKEP'nin içsel politika araçlarıyla aşılmasının mümkün olmadığı sonucuna varılmaktadır.

Anahtar Sözcükler: *neoklasik iktisat, neoliberal siyaset, küresel ekonomik kriz, iktisat politikası.*

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INTRODUCTION

At this critical turning point of the capitalist world system in turmoil, there is an ambiguous agenda for the contemporary paradigms of political economy (PE). It is the neoclassical school of economics (NSE) and the neoliberal practice of the NSE that come to the fore in this agenda because a structural change in their theoretico-practical construction will underlie the deconstruction of free-market capitalism. In this context, the paper aims to investigate how deep the crisis of the neo classical political economy (NCPE) is and if this crisis can be overcome through an inside-out change.

This investigation requires a systemic and evolutionary analysis of the NCPE at the level of theory and practice in terms of its epistemological, economic, and political dynamics. An insight of this kind matters for three things. The first is that the ongoing crisis is a crisis the roots of which lie both in the theoretical assumptions of technical economics and politics and in the irrational actions of the politico-economic actors in conducting market exchange or in governing the institutional order. The second is that these roots sprouted up not with the beginning of the neoliberal order roughly by the early 1980s but with the beginning of the liberal science- and policy-making. In other words, the roots of the crisis are both epistemological and path-dependent. As a result, the third is that the crisis cannot be contained by inside-out and patchy theoretical or practical adaptations.

The paper has been organized into four sections in order to answer its two inquiries noted above. The first section examines if there is a systemic difference between classical or neoclassical paradigm(s) of political economy. This [in]difference matters in exploring the development and embedding of the NCPE's key theoretico-practical roots and the limits in its inside-out change today. In the second and third sections, the paper proceeds to deepen this debate in the context of the key contemporary economic and political theories underlying the NCPE. This particular section also brings New Keynesian Economics (NKE) and New Institutional Economics (NIE) into the analysis as two contemporary theories that feed back into the NCPE's macroeconomic and institutional establishments, respectively, though raising some methodological objections to it. The fourth section investigates the performance of the American model in the period 1980-2015 when the model had been aligned with the NCPE in order to explain the practical implications of this debate. To further substantiate the consequences of this investigation, these implications will also be debated with reference to the performance of the German model in the period 1950-2015 when the model was first established as a social market economy but then directed towards a (neo)classical one. The conclusion merges the qualitative and quantitative data coming out of the discussion in the first four sections to carve out an overall response to the paper's two basic inquiries.

1. A SYSTEMIC DIFFERENCE BETWEEN CLASSICAL AND NEOCLASSICAL PARADIGM(S) OF POLITICAL ECONOMY?

Wallerstein (1980) stretches the antecedents of liberal paradigm back to the 16th century, to the beginning of the Reform and the Renaissance. On the basis of the long-run accumulation of its formational dynamics, the liberal paradigm's major (historical) watersheds would be suggested to be the French Revolution, the core constituents of which were the economic and political liberty with a limited emphasis on social equality, and the industrial revolution that accommodated the Revolution's spreading impacts till 1848 (Arblaster, 1984: 210-11). As Arblaster (1984: 146-47) put it, around the mid-16th century, there was widespread confusion of beliefs and social unrest, the dynamics of liberal change. Although early liberal and constitutionalist developments were forestalled in most of the Europe as of 1660, these dynamics, however, sparked off the gradual formation of an essentially bourgeoisie social philosophy, which was to become the middle-class orthodoxy. Considering this primordially anti-systemic nature of liberal social accumulation, Wallerstein (2011: 2) and Dewey (1963 [1935]: 62) argue that the liberal paradigm was originally a centre-left ideology denounced by then conservatives like Burke.

Under the gloomy legacy of this pendulum, there has been a perplexing ambiguity in the meaning of the term liberal between classical and neoclassical economics, and between differences and indifferences of classical and neo liberalism (Wallerstein, 2011: 5-6; Freeden, Stears, 2013: 330). In this paper, in terms of the intercomplementary implications of their economic and political axioms, classical or neo-classical economics and classical or neo-liberalism are considered as the theory and practical politico-institutional organization of liberal political economy, respectively. It is within this context that the former has always been used to provide a conceptual basis for or justify the loopholes of the latter and the latter ensured the basis of institutional and political power necessary for the former to flourish and become embedded. This point fits into the fact that, as Dewey (1963) put it, pure science and applied science are interbreeding and interpenetrating activities (Putnam,1995: 173-4).

Sustaining this intermesh between the theory and praxis of liberal PE is an enduring pragmatism from its outset. Concerning this point, James (1916 [1907]: 53-5) notes that "theories thus become instruments, not answers to enigmas, in which we can rest. We don't lie back upon them, we move forward, and, on occasion, make nature over again by their aid. Pragmatism unstiffens all our theories, limbers them up and sets each on at work". Classical and neoclassical theories have in this regard been drawn upon a theoretical pragmatism as a scientific justification of their proponents' practical interests (Habermas, 1974: 272-3). The nature of this relationship originates in the precedence and immediacy of practice over theory in the evolution of liberal history (Mill, 2004 [1848]:

6), especially since the 19th century, when positive sciences, which emanate from empirically verifiable knowledge, came to be the productive force of social development (Habermas, 1974: 253-4). As a well-established fact of today, till now, the so-called pragmatism has collapsed roughly two times in systemic terms with the Great Depression of 1929 and the Great Recession of 2007-08 (It still persists, though, thanks to the cited institutional-cum-discursive power grasped by the practical dominance of capitalist system of production).

The term neoclassical was first used by Veblen (1900) and then used rather loosely and somewhat inconsistently. In our analysis, the NSE, which emerged in the 1870s, is used as the equilibrium price and market theory drawn upon the coordinating power of markets and efficiency of market-determined resource allocation. The NSE can be regarded as a meta-theory of economics (Lawson, 2013), the policy premises of which rest upon, inter alia, four pillars: a dogmatic methodology of theorization, general equilibrium, self-clearing markets, and minimal state (These principles are constitutive of the NSE as a meta-theory rather than shared by all schools that are grouped under the NSE, as elaborated below). The NSE has made some essential changes in the theoretical premises of the classical schools of economics (CSE), the foremost one of which is marginalism.

Marginalism emphasises small adjustments, such as the adjustments a consumer might make in deciding which combinations of commodities might yield most pleasure. ‘A little more of this and a little less of that’, or ‘a little more of that and a little less of this’ – this incrementalism in individual choices is presented as the essence of economic decision-making. Rational consumers, one may surmise, will shift their spending between commodities until the utility, or satisfaction, given by each is equalised at the margin (Stillwell, 2006: 148-9).

Among the other key changes can be cited the replacement of labour value with utility and of the macro-theoretical arguments of the classical school such as classes, their competing interests and the conditions of social progress with the behaviour of individuals and competitive markets, and how consumers’ demand influences prices and the allocation of resources (Stillwell, 2006: 149). But this micro-level revolution was also drawn upon the cited four axioms rather than changed them in terms of macroeconomic policy. This is why Keynes (1964[1936]) did not make any distinction between classical and neoclassical economics but designated the both as the indistinctive proponents of laisses-faire capitalism. In a similar vein, as the debate on the rudiments of the contemporary macroeconomic schools of neoclassical economics will illustrate, there are clear minutiae in their technical explanations of economic system but these differences are by and large drawn upon the same dogmatic axioms, too.

Of the cited four pillars, the dogmatic methodology is the key trans-temporal thread that not only bridges the CSE and the NSE but also underlies the other three: self-clearing markets, general equilibrium, and the minimal state. And what underlies the genesis of this methodology is the scientific legacy of enlightenment, the Newtonian science. Two main linkages are there between liberal science-making and the Newtonian physics; balanced and in-equilibrium co-existence of the constituents of a whole, and the spontaneousity of this equilibrium in the sense that any attempt to tinker with the self-moving character of a whole, in effect, destroys it (Manning, 1976: 16-23; O'Boyle, 2017). To justify these sacrosanct principles, liberal thinkers of the past and present dissociated their theories from practical reality and then resorted to abovenoted pragmatism. As a well-established fact, in economics, it is Adam Smith who set the stage for this dogmatic methodology.

The seminal nature of Smith's (1976[1776]) work, The Wealth of Nations, lies in its conceptualizing the interactions of major politico-economic institutions in reasonable detail. Yet his systemic methodology cannot be claimed to strike an unchallengeable trade-off between theoretical consistency and practical conduct. As can be teased out of the following paragraph, he explicitly avows the imperfect network of market exchange.

It is not easy, it has already been observed, to ascertain what are the average wages of labour even in a particular place, and at a particular time. We can, even in this case, seldom determine more than what are the most usual wages. But even this can seldom determine more than what are the most usual wages. Profit is so very fluctuating that the person who carries on a particular trade cannot always tell you himself what is the average of his annual profit. It is affected not only by every variation of price in the commodities which he deals in, but by the good or bad fortune both of his rivals and customers, and by a thousand other accidents to which goods when carried either by sea or by land, or even when stored in a warehouse, are liable. It varies, therefore, not only from year to year, but from day to day, and almost from hour to hour. To ascertain what is the average profit of all the different trades carried on in a great kingdom must be much more difficult; and to judge of what it may have been formerly, or in remote periods of time, with any degree of precision, must be altogether impossible (Smith, 1976 [1776]: 77-8).

Thus, to Smith, the equilibrating signals of free market mechanism (prices, wages, and profits) are indeterminable in structural terms. Paradoxically, however, the same Smith did not abstain from generating a holistic dogma, the invisible hand hypothesis, a built-in dynamic of market societies that is supposed to spontaneously order the periodic disorders of laisses-faire capitalism. He explicates the perfect match of supply and demand, which is tantamount to general equilibrium, with unhesitant rectitude: "the quantity of every commodity brought to market naturally suits itself to the effectual demand" (Smith, 1976 [1776]: 75-83). Smith's invisible hand hypothesis was then continued with Walrasian general equilibrium theory, the New Classical School (NCS), and the Real Business Cycle (RBC) schools of economics.

Conceptualized by Léon Walras (1965[1926]), general equilibrium defines how all parts of an economic model fit into together. Walras assumes that a voluntary exchange between well-informed, self-interested, and rational individuals creates an efficient and mutually beneficial organization of the production and distribution of income. There are mainly three components of an economy in a Walrasian competitive equilibrium; (i) the demand equals the supply (ii) each agent can buy and sell each goods or service, and (iii) all the firms and consumers can exchange a given quantity of goods that could maximize their profits and utilities, respectively. As a corollary, the cost and price equal to each other and therefore there is no profit or loss. For profit and utility maximization, it is well enough to know the number of consumers and firms, the initial endowments of resources, the consumers' preferences, and the techniques available. The rest will be achieved by the maximizing behaviour of the agents and the competitive mechanism (Walker, 2003: 180-81; Screpanti, Zamagni, 2005: 180-88). The NCS and the RBC, two key branches of contemporary neoclassical economics, are drawn on, inter alia, the idea of self-clearing and self-equilibrating markets under general equilibrium conditions. In brief, all of these theories are rooted in a superordinate claim that there is an ever perfect match of supply and demand through market signals in a single market or between all markets and there is no need for an activist macroeconomic policy thus. Though not explicitly confirming general equilibrium, the Monetarist School of Economics (MSE), which pioneered the resurgence of contemporary neoclassical theory, features the same idea that state's intervention of any kind in markets cannot create a stabilizing effect but higher prices and economic inefficiency at the end of the cycle.

Why do Smith and his successors resort to such a double-shuffle? Because, without this mythic superstition, (i) market imperfections cannot be manipulatively concealed by any other means, and thus (ii) state intervention, the visible hand, cannot be left out of the game and presented as the unique culprit of those imperfections.

It is an interesting detail that, roughly one and a half century later than Smith, Keynes argued, albeit originally being a mathematician, that it is a systemic fault to analyse an economic system in consideration of only quantitative data and to exclude everything qualitative that underlies the imponderable implications of economic action.

Now the strength of all these motives will vary enormously according to the institutions and organisation of the economic society which we presume, according to habits formed by race, education, convention, religion and current morals, according to present hopes and past experience, according to the scale and technique of capital equipment, and according to the prevailing distribution of wealth and the established standards of life (Keynes, (1964[1936]: 109).

The underlying reason for Keynes was the same as Smith's: it is hardly possible to gather a set of quantitative data that reveals macroeconomic aggregates as perfectly as to leave its theoretically-verified qualitative balances aside (although relatively reliable quantitative data can be collected at sectoral level). For Keynes, an economic system is based on the trade-off between individual liberty, economic efficiency, and social equity. With this systemic perspective in examining the social whole, Keynes' difference from Smith was that he did not gloss over the imperfections of market economy and economics but proposed a corrective tool for harnessing their self-destructive collaboration: the visible hand. What caused Keynes to do so was obviously this thought: "Nor is it true that self-interest generally is enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately" (Keynes, 2010[1931]: 288). As a result, according to him, "a somewhat socialization of investment will prove the only means of securing approximation to full employment" (Keynes, (1964[1936]: 378).

The epistemological core of liberal theory that rejects collective action of Keynesian kind is the atomistic particularism, as conceptualized by Bacon, Descartes, Hobbes, Spinoza, and Locke, that asserts itself in the individualist structuration of communicative action and thereby demarcation of particularistic values from their norm-confirmative or socially-integrative expansions. This is the methodologic reductionism to explain wholes through their disjointed constituents. Under this separatist-consciousness, it is presumed that individuals must select their own values and construct their own morality because community is a fictitious entity. Underlying is the axiom that "no rational person could elevate the supposed interests of a fiction about the real interests of real individual people" (Arblaster, 1984: 39).

As Hayek (1998a [1973]: 10) put it, for Descartes, the reason is for making logical deductions from explicit premises that should be aligned with demonstrable truth. And this sort of truth must be ponderable. The neoclassical rationality that underlies today's economics thinking resides in this quantitatively-bounded reasoning sprouting out of the claim that nature consists of pleasure and pain, and the unique basis of our actions is the intersectional varieties of these two causes (Bentham, 2000 [1781]: Chapter 1). This utilitarian rationality gains its meaning across market transactions, as put by Jevons (2005 [1888]: 26), a pioneering figure of the neoclassical economics, as follows;

I hesitate to say that men will ever have the means of measuring directly the feelings of the human heart. A unit of pleasure or of pain is difficult even to conceive; but it is the amount of feelings which is continually prompting us to buying and selling, borrowing and lending, labouring and resting, producing and consuming; and it is from the quantitative effects of the feelings that we must estimate their comparative amounts. We can no more know nor measure gravity, in its own nature we can measure a feeling; but, just as we measure gravity by its effects in the motion of a pendulum, so we may estimate the equality or inequality of feelings by the decisions of the human mind. The will is our pendulum, and its oscillations are minutely registered in the price lists of the markets. I know not when we shall have a perfect system of statistics, but the want of it is the only insuperable obstacle in the way of making economics an exact science. In the absence of complete statistics, the science will not be less mathematical, though it will be immensely less useful than if it were, comparatively speaking, exact.

In addition to precluding activist economic policy, the reason for why classical/neo-classical theory rigidly dissociates institutional analysis from its collective and normative socio-political implications is to forestall the formation of a balance of power between economic power to purchase and political power to redistribute the power to purchase. This paves the way for market transactions to be divorced from micro-macro power exchanges at the level of enterprise and macro economy (This point is elaborated on with reference to the NIE in due course). It is within this context that Polanyi (1989 [1944]: 71) defines market economy as "an economic system controlled, regulated and directed by market prices; order in the production and distribution of goods is entrusted to this self-regulating mechanism". Friedman (1980:14) adds that prices in this order are the coordinating elements that transmit (pecuniary) information, enable the entrepreneurs to adopt the most effective endowment of production, and determine the distribution of income among the factors of production (The power-theoretic delineation of market order has been further explained in due course).

2. THE RISE AND FALL OF THE CONTEMPORARY NEOCLASSICAL ECONOMICS

What interrupted the theoretico-practical power of the neoclassical economics till the early 1970s was Keynes' theorization of the underemployment equilibrium and the need for demand management to achieve full employment in the wake of the Great Depression of 1929. Keynesian economics then came to lose its power in the face of the Great Stagflation of the 1970s. During the rise and fall of the Keynesian economics, there emerged mainly three schools in the neoclassical tradition beginning with the 1950s: The MSE, the NCS, and the RBC. Despite their technically changing explanations, these schools either predicated their axioms on classical postulates of self-clearing markets and general equilibrium or poured their theoretical weapons into putting stabilizing and regulatory state out of the analysis. The New Keynesian School, too, is drawn upon rational individuals and self-clearing markets, though being aligned with the Keynesian School (Krugman, 2009).

The resurgence of neoclassical economics can be dated back to the formulation of expectations-augmented Philips Curve by the monetarist denying reverse relationship between inflation and unemployment in the long-run. According to the monetarists, the long-run Philips curve is vertical at the natural rate of unemployment where expected and actual rates of inflation are equal. Underlying is that the anticipation of actual rate of inflation by workers in the wake of monetary growth refrains them falling into the trap of temporary money illusion and thus from increasing their labour supply. It is the adaptive expectations that enable workers to achieve this full anticipation by the way of extrapolation (Friedman, 1968, 1977). Friedman and Goodhart (2003 [1970]: 58) define adaptive expectations as the anticipations that "…are revised on the basis of the difference between the current rate of inflation and the anticipated rate. If the anticipated rate was, say, five percent but the current rate ten percent, the anticipated rate will be revised upward by some fraction of the difference between ten and five. As is well known, this implies that the anticipated rate of inflation is an exponentially weighted average of past rates of inflation, the weights declining as one goes back in time".

The key consequences of adaptive expectations are, first, that it is real rather than money wages that determine inflation-unemployment trade-off and, second, that monetary expansion can reduce unemployment in the short-run only when consequent inflation is unanticipated. Underlying unanticipated inflation is the gradual rather than the abrupt adjustment of expected inflation to actual inflation. Despite this, according to the monetarists, economy is stable in structure and hence will return to the long-run equilibrium at the natural rate of unemployment after being disturbed by erratic monetary growth but this time with a higher equilibrium rate of wage and price inflation equal to the rate of monetary growth (Because people will revise their expectations upwards). Friedman adds that activist fiscal policy could not increase aggregate demand as households base their consumption decisions on their permanent rather than temporary income. To prevent economic instabilities, Friedman [2002 [1971]: 51) contends that there should be a legal arrangement urging policy-makers to increase money supply at a steady rate and thus preventing "monetary policy from being subject to the day-by-day whim of political authorities" (The monetarists' focus on money lies in their consideration of fluctuations in money supply as the key cause of economic instabilities).

The rising tide of inflation with the second part of the 1960s, the declining stability of the Philips Curve, and the consequent Stagflation of the 1970s paved the way for the birth of a new paradigm, the New Classical counter-revolution. Influenced by the natural rate hypothesis of the monetarists, the NCS' main argument was to introduce rational expectations hypothesis (The other name of the NCS is the Rational Expectations

School). According to this school, the rationally-established expectations yield the perfect foresight except the stochastic (random) disturbances. In case these expectations show certain defaults, the economic agents can change their strategy of expectation formation. Thus, the agents, in no way, form systematically wrong expectations over time. Such a perspective falls back on the view that each historical event consists of same static variables, and their ergodic structures would well be predicted in hindsight for the next time. Thus, firms maximize their profits and workers and households maximize their utility without falling into money illusion. Restoring the classical modes of equilibrium analysis in the both short-run and long-run, in particular the Walrasian general equilibrium analysis, the NCS assumes continuous and rapid market clearing as a result of complete and continuous wage and price flexibility. What transmits imperfect price signals to economic agents is exogenous monetary demand shocks. Thus, the NCS suggests rules rather than discretion in preventing and managing business cycles because anticipated increases in money supply will not cause a shift in the real output and employment but in the price level, even though unanticipated increases could do so. This line of argument came to be the basis of central bank independence (Snowdon, Vane, 2005: 219-271).

The Real Business Cycle School (RBCS) suggests that each stage of business cycle is both an equilibrium rather than a welfare-reducing disequilibrium. As a corollary, according to the RBCS, the unanticipated monetary shocks of the NCS have been replaced with large random changes in technology as a form of supply-side shock. These shocks cause output and employment to fluctuate as the price changes caused by these shocks change consumption decisions and labor supply. These fluctuations are those at the natural rate of output and caused by a series of permanent shocks, each of which determines a new growth path. And neither the quantity of money nor the aggregate price level has any impact on aggregate output and employment (Money demand expands during business expansions, eliciting an accommodating response from money supply). Thus, there is no need for activist stabilization policy which will otherwise be counterproductive as the economy is already under full employment (Tsoulfidis, 2010: 343-362).

The above-examined three theories maintained the tradition of the NSE. There is also another school of macroeconomics, the New Keynesian School of Economics (NKS) that should be examined here to better understand the neo-classical establishment since the NKS has both become a part of mainstream macroeconomic thinking or teaching and also fed back into the embeddedness of the NCE as a result of embracing the latter's some key analytical premises, though raising some methodological objections to it. It is within this context that the NKS emerged out of the Keynesians' search for incorporating the influence of inflationary expectations and the impact of supply shocks into the orthodox Philips curve analysis. In methodological terms, on the one hand, the NKS aims to base

Keynesian economics on maximizing behavior and forward-looking rational expectations within a dynamic stochastic general equilibrium (DSGE) framework. The NKS also brings into analysis all real world imperfections such as imperfect information and imperfect competition, on the other. In doing so, the NKS claims the short-run non-neutrality of money that stems from nominal or real wage and price rigidities and market imperfections. These rigidities and imperfections amplify the magnitude of aggregate disturbances that arise from supply-side or demand-side shocks. But there is no unified acceptance of activist stabilization policy as most of the NKS members accept the problems of uncertainty and time-lags to arise out of discretionary policy. For example, Greenwald and Stiglitz (1987) unhesitatingly support activist fiscal policy and avow the limited efficacy of monetary policy and wage cuts in recessionary period. But they (1987: 132) also note that "if the invisible hand of the market is palsied, the visible hand of the government may be far worse". The students of the NKS support discretion only in the case of huge shocks in consideration of the slow adjustment process in market economies. And instead of a strict monetary growth rate rule, which is a hardcore monetarist premise, the NKS suggests a flexible inflation targeting strategy and price stability as the key target of monetary policy to be achieved by central bank in greater transparency and openness, which underlies the school's popularity (Ball, Mankiw, 1998; Gordon, 1990; Snowdon, Vane, 2005: 357-432).

Based on the abovenoted theoretical axioms, the science of macroeconomics was quite self-confident prior to the Great Recession of 2008-09, as argued by Lucas (2003: 1), the NCS' pioneering figure, in his presidential address to the American Economic Association: "My thesis in this lecture is that macroeconomics in this original sense has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades." However, as featured by the Great Recession and the ongoing Great Stagnation, there have been, inter alia, three points illustrating the collapse of the building blocks of the mainstream macroeconomics including the NKS.

First is the idea that macroeconomic fluctuations were obsolete under symmetric information held by rational agents. As unveiled by the Housing Bubble, the markets were not stable or in equilibrium. Nor were the economic agents rational in having "a complete understanding of the economic mechanisms governing the world" (Colander *et al*. 2009: 256). Economists did not take seriously the diverse expectations and imperfect knowledge of heterogeneous economic actors or the systemic risk factors such as that between financial meltdown and the real economy, thereby failing in explaining the unfolding dynamics of national or global economic crisis.

Second is an unconditional pessimism about the power of monetary and fiscal policy to sustain or stimulate stable growth (Romer, Romer, 2013; Blyth, 2012). The key problem with the monetary policy before the Great Recession was "the idea that targeting inflation will lead to financial stability or that focusing on only price and financial stability is sufficient for maintaining a low output gap and stable and robust growth" (Stiglitz, 2012: 35). As for the fiscal policy, it was that there is no need for fiscal tools for short-run stabilization and that the fiscal tools such as broad-based income tax cuts, increased transfers, and higher government purchases cannot stimulate the macroeconomy even when monetary policy does not respond as in the case of zero lower bound (Romer, 2012).

The third is that new Keynesian dynamic stochastic general equilibrium (DSGE) models that underlied macroeconomic research have failed in explaining the great macroeconomic crises in three-quarters of a century, the foremost of which is the Great Recession (Romer, 2012; Blanchard, 2018: 45). In general, macroeconomic models did not include agency problems. For example, central banks had models in which banking did not play an important role. There were also deeper mathematical flaws in the structure of the models such as embedded assumptions of concavity, which meant risk diversification necessarily worked. But the Great Recession proved the very reverse (Stiglitz, 2016: 40-41).

The same theoretical flaws had in fact created economic inefficiencies and crises in the developing countries far earlier, too, such as the Mexican, the Russian, the Argentine, and the Turkish crises, which did not take proper attention due likely to these countries' relatively small economic size and level of development as well as the local character of these crises. The specific relevance of these crises for the NSE is that the most of the developing countries including these crisis-hit ones which had adopted the NSE's policy prescriptions under the banner of the 'Washington Consensus' achieved lower growth, higher inequality, and deindustrialization. For example, the growth in Latin American countries in the 1990s was half of that which was achieved under import-substitutionist model in the 1960s and the 1970s. This was quite the contrary to the fact that the East Asian countries secured much higher rates of growth, industrial sophistication, and relative equality of income under state guidance rather than under the surveillance of the International Financial Institutions (IFIs), the World Bank (WB) and the International Monetary Fund (IMF) (Stiglitz, 2008). The Consensus was formulated and conducted mainly by the IFIs via the Structural Adjustment Programs (SAPs). The policy prescriptions on which the so-called 'Consensus' was achieved consisted mainly of minimal state, unfettered financial and commercial liberalization, deregulation of sectoral exchanges, austerity-contingent fiscal policy and inflation-obsessive monetary policy, downsizing of public sector by unquestioned privatizations and by sharp cuts in welfare spending. However, in view of the world-wide failure of these one-fits-all prescriptions along with consequent protests and growing social unrest against them, the IFIs started featuring institutions as a key potential of higher efficiency and growth under the banner of 'second-generation reforms' roughly with the mid-1990s.

The reforms were not aimed, in essence, at harnessing the SAPs with a context-specific approach but at achieving three inter-reinforcing objectives. The first was to pretend making structural changes to the Consensus' policy framework in the face of the arising concerns about it; second is to do so by, among the others like female education or improved safety nets, assigning the role of 'effective intervention' in building institutions to the state in consideration of its success in the East Asia, thereby giving an impression of striking a balance between state and market; and the third is to turn the second objective into an opportunity by recasting overall institutional architecture in a way to feed back into the Consensus' operational scope. Among the functions of the state's this new role took place (i) turning bureaucratic apparatus into a managerial team acting on the basis of private business rules rather than on public rules (ii) improving the so-called investment environment by taking supply-side institutional measures such as imposing higher indirect taxes upon ordinary citizens for compensating the arising burden over public budget out of the cuts in corporate and capital taxes (iii) boiling down the function of regulative action and law into generating and applying deregulative rules, thereby enabling property and capital holders to turn private risks into public risks as their 'natural right'. A comprehensive analysis of the World Bank's 1997 Report, The State in a Changing World, which is accepted as the Bank's magnum opus to launch the so-called reforms, well features these three points (It makes no structural emphasis on the necessity of imposing binding constraints).

Expectedly, there emerged a need for a theory of institutions to conceptualize this new role of the state as a complementary dynamic for the scaffold of the NSE. It was by the way going to be more appealing if this theory, like the NKE, would denounce some policy premises of the NSE while fulfilling this complementary role in view of then arising negative impression on them. The new institutional economics – NIE was cut out for this mission. In fact, the NIE has certain methodological objections to the NSE such as the disacceptance of rational action, spontaneous equilibrium, and the costless exchange of market players (North, 1990: 14-15). However, at the heart of it lies a 'cutting-edge' idea that the process of market exchange creates certain costs, entitled transactions costs, and that higher economic efficiency and growth are contingent on the inexorable minimization of these costs. But what does this idea change in the establishment of NSE? Prima facie, it poses a challenge to the discursive power of the NCE and the RBC by denouncing their theoretical construct based on rational action. But, as noted above, the so-called construct is not an end but a means for capitalist practice to take hold over the entire politico-economic edifice including institutions. In this regard, when examined more closely in terms of the NSE's theory-practice mismatch, it turns out that the NIE hardly changes but consolidates this (mis)match at the level of institutions.

First, according to the NIE, it is the contract-mediated exchanges rather than the constraint-based public ordering of private contracts that will ensure higher investment, efficiency, and income, as the NIE takes it for granted that state's regulation of market exchange cannot optimize but increase transaction costs. Second, there is no need for a power-based explanation of the economic exchanges as the private contracts are the unique means of distributing income 'equally' among the factors of production. Third, therefore, state's unique task should be to improve investment environment by ensuring a friendly bureaucratic and judicial infrastructure for private actors to securely and freely enforce their contracts. Under the dogmatic conceptualization of 'minimizing transaction costs at all costs', the NIE's these three premises are well aligned with the NSE's methodology of theory building based on non-virtual conceptualizations and the foremost outgrowth of this methodology, the minimal state hypothesis (see Williamson, 1979, 2010; Ostrom, 1990).

The consequences of the theoretico-practical collaboration between the NSE and NIE can well be seen in the genesis of the Global Recession of 2008-09 and the unfolding of the Global Stagnation of 2010-18. The key reason underlying the former was the repealment of the key articles of the Glass-Steagall Act as well as the cuts in taxes on capital and financial revenues in a macro-economic setting structured by the neo-classical policy priorities as to be elaborated in due course (The Glass-Steagall Act had effectively decoupled investment and commercial banking activities, thereby preventing the undue diversion of publicly-insured deposits into high-risk speculative operations by investment banks). This initiative aimed to reduce transaction costs for commercial banks and individual financial investors to increase the quantity of their transaction capacity, which is perfectly in line with the NIE. But, as a well-established fact of today, this initiative then turned de facto private risks into de jure public risks as a result that the American state focused on monolitically minimizing rather than optimizing financial risks, which caused the decline of aggregate income and the rise of inequality in the distribution of this income not only in the USA but also across the world, and paved the way for trade wars between the USA, China, and the Europe, which ended up with the reduction of the size of global commercial transactions. It was the Dod-Frank Act of 2010 issued to seemingly 're-optimize' the financial transaction costs in the wake of the confiscation of the individual and corporate speculators' 'transaction losses' by the taxes collected from the households (The Act aimed to redesign the country's financial system by, inter alia, the creation of a new public organization, the Financial Stability Oversight Council or the imposition of new requirements such as that for both parties of a derivate to clear it by arranging a clearing house for backing up their performance on the contract [Kim, Muldoon, 2015]). Namely, with this Act, the state's role turned from preparing a good playground for property rights into decently cleansing it. Apparently, these two roles are not mutually exclusive in feeding back into the expectations of property holders.

The discussion till now demonstrates that the building blocks of contemporary NSE with its complementary theories have been drawn upon flawed assumptions. The removal of this wreck calls for not only a minor theoretical or policy change but also an epistemological and systemic change. Such a change did not occur after the Great Depression of 1929. Instead, as noted above, the NSE's four building blocks have been revived under different banners. As has been seen over the last decade after the Great Recession, a change of this kind in the contemporary NSE seems to be unlikely, too, in particular when taken with its politico-institutional implications, to which we now turn.

3. POLITICAL [NEO]LIBERALISM BETWEEN RENT-SEEKING AND RENT-CREATION

Like the path-dependent relationship between the CSE and the NSE, the NCPE's contemporary politico-institutional organization, neoliberalism, is not structurally different from classical liberalism, though presented as a new scheme of PE. Harvey (2007: 2) defines it as "a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade". What is then its distinguishing feature from its classical origin? Basic pillars of the 19th century classical liberalism were the balance of power system averting the outburst of a conventional war, international regime of gold standard for the steady organization of transnational exchange relations, and a self-regulating market under the auspices of state intervention such as protective tariffs, export bounties, and indirect wage subsidies. De facto, an international financial regime under Britain's leadership with a subconscious voice of the Pax Britannica was the nucleus of systemic functioning of these pillars, lying down the groundwork of international peace, financing governments and issuing long-term bonds to private corporations, investing in industrial projects, public utilities, etc. (Polanyi, 1989 [1944]: 3-11).

Put differently, what is then the difference of classical liberalism from its new version (neoliberalism)? As Hirst and Thompson (1996: 19-50) vindicated, it is not the faster growth of international financial or commercial transactions, since the former saw their higher rates than the latter in quantitative terms. It is not the qualitative meaning of free trade that, during the former, signified the freedom for the most powerful to inflict its rules on the rest (Woodroff, 2002: 152), as has been during the latter. The nature and operational logic of financial conditionality and its hegemonic power during the former was also structurally not different from that during the latter, as Polanyi (1989 [1944]: 14) noted "finance ─ this was one of its channels of influence ─ acted as a powerful moderator in the councils and policies of a number of smaller sovereign states. Loans, and the renewal of loans, hinged upon credit, and credit upon good behaviour". Nor is it the existence of state intervention in favour of economic power centers in open conflict with liberal theory, as Harvey himself (2007: 74) put it:

> This tendency on the part of the core states like the US to safeguard financial interests and to stand by as they suck in surpluses from elsewhere both promotes and reflects the consolidation of upper-class power within those states around processes of financialization. But the habit of intervening in the marketplace and bailing out financial institutions when they get into trouble cannot be reconciled with neoliberal theory. Reckless investments should be punished by losses to the lender, but the state makes lenders largely immune to losses. Borrowers have to pay up instead, not matter what the social cost. Neoliberal theory should warn 'Lender, beware', but the practice is 'Borrower, beware'.

One structural difference between the two would be time-space compression (Harvey, 2007: 3) as a result of the centripetal commandment of liberal centrifugality. Time-space compression is rooted in the extension of geographical span of neoliberal institutionalism, gasino capitalism, and the consolidative externalities that this extension generates and embeds (Strange, 1994). The global and transnational shareholders of neoliberalism collectively deepen the centrifugalizing impulse of liberal institutionalism through centripetal means such as dispute settlement system established for the free flow of the foreign direct investments, structural adjustment programmes, conditionality-contingent development aids, etc. Unlike neoliberalism, classical liberalism did not hinge on the deregulative regulation of supranational organizations (Razeen, 1998: 177-178). Blant (2010: 6) refers to this pull-push dialectics arguing that the neoliberal state is a telocracy, an order devoted to the pursuit of some overall end, but not a nomocracy, a rule governed order not devoted to the attainment of particular ends. In Durkhemian terms, this is a sheer unifying differentiation in a reified world. The overall end here is, first, to allow a systemic leeway for capital-holders and their supranational auxiliaries to infuse into the interiors of national spaces and, second, to ensure that the centrifugal tendencies of neoliberal actors in a catallaxy do not attain to the point of a self-destruction as has been the case from the beginning of the Great Recession of 2008-09.

This structural difference, however, does not change the politico-economic rationality in both the CPE and the NCPE. In the both, it draws on a freedom from political power in order to justify the unconstrained power of those who hold economic power in their hands. This rationality aims to de-link economic power to purchase and political power to redistribute economic power, as noted earlier, because it is assumed by the both classical liberals and neoliberals that the latter can wreak havoc on the freedom of competition that underpins the former. The basic ground is that the only right to power in liberalism is the right to purchase in exchange-conditioned marketplace as the basic source of economic freedom (Smith, 1976 [1776]: 48). In a similar vein, economic freedom according to Friedman (2002 [1971]: 11-12) consists of saving, earning, consuming, investing, or pursuing a career in tandem with individual preferences.

What about the equality of freedom to power at the level of practice? Smith (1976 [1776]: 84-85) points out that "Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rates…Masters, too, sometimes enter into particular combinations to sink the wages of labour even below this rate…Combinations [of the master] are frequently resisted by a contrary defensive combination of the workmen; who sometimes, too, without any provocation of this kind, combine of their own accord to raise the price of their labour". What is the result? It is that the liberty of workers is to offer their labour freely and that the right to organize for workers is a source of rent-seeking but that the right to capitalize social resources is a natural right for capital holders. Because, in liberal theory, the latter is a socially-beneficial action, whereas the former requires a regulatory state intervention (Mises, 2005 [1927]: 4-11).

In other words, the power-equalising potential of state intervention fundamentally contrasts with liberty, since it deranges the competitive freedoms (Friedman, 1980: 128). Thus, the biggest threat to freedom is the concentration of power in political hands (Friedman, 2002 [1971]: 266). In a free society, according to Friedman, the general good consists principally in the facilitation of the pursuit of unknown individual purposes. Underlying this fact is that the boundary of the limitation of the individual freedom is to provide general good, and as the general good is to feed back into the operational scope of individual discretion, there is no need for ex ante collective action to constrain but to facilitate the individual action. At the outermost, in terms of state intervention, Hayek (1998b [1973]: 131) notes that institutional stock of a liberal political regime would sustain its existence even in the lack of governmental organization. This hints that its existence makes a provisional sense only for sustaining the scaffold of spontaneously-organized market capitalism. In a similar vein, in Lockean perspective, the government's unique goal should be to prepare legal foundations for assuring the private property. And the natural rights of freedom, life, and property could not be handed over to state that should be staffed solely to feed back into their entitivity by modulating their social ground (Habermas, 1974: 93).

Overall, it can be suggested that the key political axiom bridging the classical liberalism and the neoliberalism is minimal state. The contemporary theoretical justification of this axiom can be orderly and systematically understood with reference to the public choice theory (PCT). Though rejecting some liberal dogmas such as invisible hand, the PCT's key focus is to rule it out for state to take any kind of steering action with the thought that the lower the state intervention the higher the economic efficiency. And it is rent allocation that underlies the PCT's this non-interventionist posture. In the PCT theory, “Rent is that part of the payment to an owner of resources over and above that which those resources could command in any alternative use” (Buchanan *et al*. 1980: 1). There are two forms of rent allocation: rent-creation and rent-seeking. An innovative entrepreneur could capture economic rents during the initial supply of innovated products, but this is also a signal to prospective competitors. And with the entry of new producers, the consumer utility will go up while prices go down (Buchanan *et al*., 1980: 9). But rent-seeking is a negative-sum game precipitating a vicious circle through which economic efficiency and individual liberty are retarded and suppressed. Rent-seeking is backed by those people who benefit from the reduction of real taxes, who get increased flow of benefits such as direct monetary transfers etc., who such as employees, investors, owners of real assets or bureaucrats presume an improvement in their economic positions due to a prospective increase in aggregate demand (Buchanan, Wagner, 2000 [1977]: 105-6).

What underlies rent-seeking is the government restrictions upon economic activity tempting people to seek for rents such as bribery, corruption, smuggling and black markets. By appropriating these restrictions by means of their power of regulation, political entrepreneurs seek to extract political rents through creating a reciprocality between their interests and rent-seeking groups’. Thus, the political mediation of economic exchange ends up with fiscal leveraging or deficit-financing and monetization of public debt by central bank in order to finance the cost of rent-seeking action between politicians, bureaucrats, businesses, and voters. The consequent high inflation not only diminishes the effectiveness of productive cycles and resource allocation due to obscuring information signals, prices, but also paves the way for sequential interventions with direct restraints on prices and higher taxes (with inflation tax) by the state (Buchanan, Wagner, 2000 [1977]: 56-76). As a consequence, consumers have to pay unnecessarily high prices, production costs come to be too high, and tax revenues are wasted. The unique way to prevent these failures is a constitutionally-determined fiscal constraint on governmental expenditures, a quantitative trade-off between taxation and spending, and an upper-limit on the expansion of base money between 3 and 5 percent annually (Buchanan, 2009: 449-51).

There is also another initiative to justify the inequality of economic power in liberal theory: Rawls’ theory of political liberalism and liberal social justice. Rawls’ theory is significant in maximizing liberal pragmatism for the so-called justification, though featuring social justice in liberal jargon. Rawls (1999: 74) argues that society is “a cooperative venture for mutual advantage”. The quintessence of social conduct, according to him, is “how the greater benefits produced by their [persons’] collaboration are distributed”. From this perspective, he (1999 [1971]: 266) offers two stages for institutionalization of political and social justice. The first is the establishment of equal liberty as the unique benchmark for constitutional convention, a principle that entails granting the fundamental liberties of a person, protecting the liberty of conscience and the freedom of thought, and executing political transactions fairly. Consequent will be the equal citizenship and political justice. The second is the enactment of social and economic policies in a way that "maximize[s] the long-term expectations of the least advantaged" under the confines of the equality of opportunity. These two stages are complementary.

There are three points in Rawls' analysis that underlie the praxis of these theoretical assumptions. First is the application of these complementary rules to particular cases in consideration of the principle that "an inequality of opportunity must enhance the opportunities of those with the lesser opportunity" (1999: 267). Second is "if there are inequalities in income and wealth, and differences in authority and degrees of responsibility, that work to make everyone better off in comparison with the benchmark of equality, why not permit them?" (1999: 130). Third is that the making of a justice-forming and sustaining structure depends on 'the laws of moral psychology and the availability of human motives' (1999: 154). He (1999: 155) adds that the making of such a psychology requires a sentiment of sacrifice for the sake of the greater good of the whole by "those who must make sacrifices strongly identify with interest broader than their own".

Rawls (1996: 131) tries to consolidate these theoretically-questionable assumptions arguing that political liberalism has a psychological power of persuasion over the establishment of just practices, originating in the constitutional existence of equal liberties. Subsequently, however, he (1999: 192) acknowledges that this persuasive function conceptualized at the level of theory would become non-functional at the level of praxis in case the subject of unjust action is as powerful as to contravene this constitutional rule and that "this situation presents a practical dilemma which philosophy alone cannot resolve". Rawls' manipulative commitment to social justice well manifests itself at this point. Because he does not suggest a constraint-theoretic regulation that would curb the power of the subject of unjust action, which will turn de jure justice into de facto one. Instead, he manipulates the conceptual shelter of philosophical theory that enables himself to make the so-called manipulations regardless of their practical applicability. Because "the rationale of the economic game in which only the conduct of the players not the result can be just" (Hayek, 1998b [1973]: 70). And the subjugation of particular means to collective ends is presumed to precipitate a social monarchy over society (Mises, 2005 [1927]: 44-45).

The minimal state paradigm of the contemporary liberal or neoliberal politico-institutional thinking is, beyond doubt, the key complementary input for the contemporary NSE. However, as the debate on the US political economy will illustrate, the key assumptions of this paradigm including a power-free political exchange and the Rawlsian theory of spontaneous social justice have turned out to be flawed in practice and a structural change in these assumptions seems to be unlikely in view of their practice in the USA over the last ten years. This is because it is the key thread bridging the classical liberal and neoliberal practice and its negation will apparently usher in the destruction of the entire edifice of liberal political thought taken together with its complementary role for the liberal economic doctrine.

4. WHOSE PERFORMANCE IS BETTER? WHOSE CRISIS IS WORSE?

The analysis till now has shown how flawed the NCPE's theory is. However, the problem lies not only in its theory but also in its practice, too. The analysis of the US economic performance in the period 1948-2015 and its comparision with the Germany's performance would enable us to illustrate this point.

As can be seen from the Table 1, the first period in the American economy witnessed a better performance than the others in GDP growth, employment, tax reveneus and budgetary balance, gross savings, private debt, and in total factor and labor productivity. This first period is aligned with a macroeconomic policy of Keynesian kind, an activist fiscal policy and monetary policy based on the real bills doctrine. In addition, American state regulated industrial setting with antitrust laws and used such policy tools as basic research support, government subsidies, and tax exemptions to stimulate industrial growth. It is clear that activist fiscal and monetary policy caused a relatively high public debt on an average and accelerated inflation with the late 1960s. The Great Stagflation of the 1970s symbolizes the crisis of the Keynesian model in the USA, a transitory period towards neoclassical model to begin with the early 1980s, when the FED adopted monetary aggregates targeting as its basic macroeconomic strategy in 1970 and the American governments reduced their consumption and investment expenditures by two-third (Meulendyke, 1998; Hibbs, 1987). Complementing this trend was the deregulation of major industrial sectors beginning with the early 1970s under pressure from large corporations that then embarked upon their massive lobbying activities at the level of American governments (Nester, 1998).

The neoclassical model of US kind in the period 1980-2006 makes sense with a non-activist fiscal policy and an inflation-obsessive monetary policy. In comparision to the Keynesian model of the period 1948-1972, this model generated lower growth; a worse inflation-unemployment trade-off; lower tax revenues and consequent higher budget deficits; lower savings; and a high burden of public debt on a par with that in the Keynesian period but sixty, seventy, and seven hundred percent higher debt stock for nonfinancial firms, households, and financial firms, respectively. The basic achievement of the monetary policy as the NCPE's key policy tool in this period is to contribute to financialization by failing to implement balance sheet regulation, to control credit expansion, to impose optimal reserve requirements on banks, and to prevent speculation by instruments such as stock margin requirements.

Table 1. Macro Economic Indicators of the American Economy, 1948-2015

Series Name	1948-1972	1973-1979	1980-2006	2007-2015
GDP growth*	4.0	3.4	3.1	1.3
Government expenditures	0.9	0.3	0.4	0.0
Consumption expenditures	2.4	2.0	2.2	1.1
Private investment expenditures	0.8	0.9	0.7	0.0
Net exports	-0.1	0.2	-0.3	0.2
Budgetary balance**	-0.4	-2.2	-2.5	-5.3
Consumer Price Inflation*	2.4	8.2	3.9	1.8
Unemployment*	4.8	6.5	6.1	7.2
Debt outstanding by sector**				
Government	60.7	41.4	59.0	88.8
Households	37.4	46.2	64.9	87.2
Nonfinancial business	37.5	51.3	59.8	68.7
Domestic financial sector	7.4	17.7	58.8	100.5
Gross Savings**	22.7	22.4	19.6	16.9
Government	2.8	0.3	0.0	-3.7
Domestic business	11.2	12.2	12.3	13.8
Household	9.4	9.9	7.3	6.8

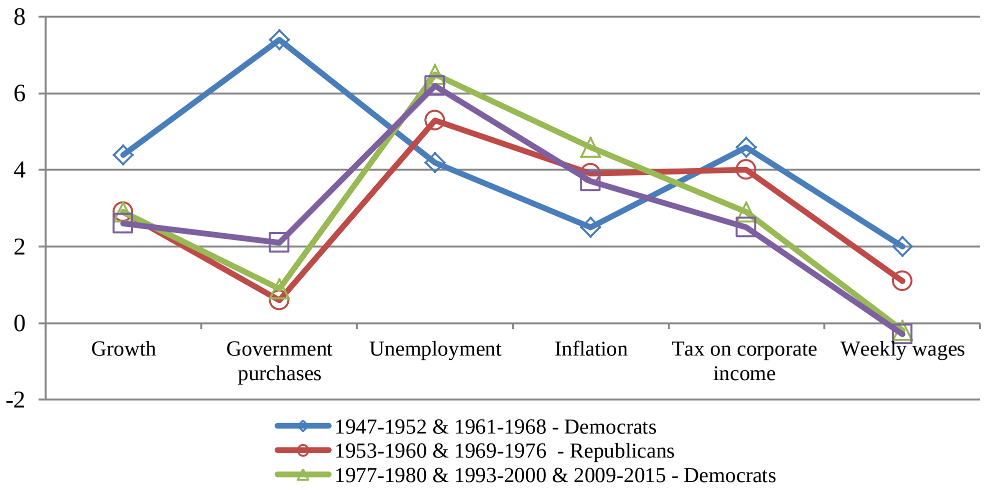
Source: Bureau of Economic Analysis (2017) 'National Accounts'.
*Percent; **As % of GDP.

In addition, when combined with such monetary policy, the lack of growth-driven regulatory discretion in financial governance promoted excessive leverage, asset price bubbles, the excessive complexity of the financial system, and the breakdown in accountability and ethics through legal arrangements such as those deregulating the asset-backed securities market and incentivizing the originators and investors of these securities. Financialization in the deregulated securities and product markets has led to three main outcomes. It has first focused the finance sector on originating and distributing high risk financial derivatives, thereby stimulating volatility across the economic system. Second, it has driven corporate governance toward a shareholder focus with skyrocketing market capitalization, stock market prices, and earnings as well as the increasing size, speculative structure, and yields of the corporate bond market. Finally, it has reduced marginal propensity to invest in the nonfinancial sector, particularly between the early 1990s and the housing bubble when profitability compared with the financial sector declined remarkably (Palley, 2012-2013).

The period of 2008-2015, which comprises the Great Recession of 2008-09 and the Great Stagnation of 2010-2015, symbolizes the crisis of the NCPE in the USA. In comparision to the Great Stagflation of the 1970s, the period of the crisis of the

Keynesian model, this crisis of neoclassical model turns out to be much more unpromising. Because the adoption of tight monetary and fiscal policy was well enough to solve the biggest threat of the Stagflation, reducing inflation to tolerable levels, despite leaving unemployment roughly at the same level. But the activist monetary and fiscal policy during and after the Great Recession have yet to solve the biggest problems of the Great Recession and Stagnation, rapidly declining rates of savings and investment, deindustrialization, consequent low growth, high unemployment, and massive debt burden in both public and private sectors.

Figure 1. The Performance of American Governments, 1947-2015



Source: Bureau of Economic Analysis (2017); IMF (2017); U.S. President (1990, 2016).

The abovenoted trends of economic policy were expectedly accommodated by political ones. The political governance in the period 1948-1972, in particular during the Democrats' incumbency (1947-1952 and 1961-1968), focused on managing the trade-off between the demands of workers for higher wages and the private sector's demand for more deregulation and lower taxes for higher investment and radical innovation. The relatively higher taxes on corporate income and higher real wages in this period during the Republicans' incumbency in parallel with the Democrats' compared to those during the former's incumbency from 1980 onwards well illustrate this point. Another evidence for this point is that the inequality of income was much lower in this first period than that in the 1980-2006 and afterwards, as can be seen in the Table 2.

Table 2. Shares of Aggregate Income and Gini Coefficient in the USA, 1967-2015

Year	Shares of aggregate income							Rate of change in marginal income tax for the top decile	Gini coefficient for households
	Lowest fifth	Second fifth	Third fifth	Fourt hfifth	Highes t fifth	Top 5 percent	Top 1 percent		
2007-2015	3.2	8.4	14.5	23.2	50.7	21.9	17.5	-16.2	0.47
1980-2006	3.7	9.3	15.5	23.8	47.7	19.8	12.9	-41.4	0.44
1973-1979	4.2	10.3	16.9	24.6	43.9	16.7	7.9	-14.7	0.40
1967-1972	4.1	10.8	17.4	24.5	43.3	16.7	8.9	…	0.39

Source: U.S. Census Bureau (2017); Piketty (2013: 499).

Underlying the rising tide of the NCPE in the country was the established rent-seeking ties between political parties and financial/non-financial businesses based on the financing of political campaings by corporations and the adoption of supply-side economic policy and the deregulation of financial and industrial system by the governments (Stiglitz, 2013; Hacker, Pierson, 2011). The key point in this regard was the transformation of the Democrat party into a procyclical actor, which can be pursued through non-activist fiscal policy, plummeting real wages and a substantial cut in taxes on corporate income during their incumbency in the period 1977-1980, 1993-2000 and 2009-2015. The culmination of rent-seeking ties between Democrats and business circles was the repeal of the key articles of the Glass-Steagall Act of 1933 by the Gramm-Leach-Bliley Act or the Financial Services Modernization Act of 1999 by the Clinton administration, which, as noted above, underlied the formation and the burst of the Housing Bubble.

This establishment of rent-seeking resulted in a rapidly worsening inequality of income due to supply-side measures ranging from declining corporate taxes and marginal income tax for the top decile in income groups to the plummeting real wages incommensurate with rising productivity of labor. The Democrats issued the Dod-Frank Act, as noted earlier. The Act is essentially drawn on positive-sum reconciliation between the financial industry and the government without imposing binding regulations on shadow banking and any sanction on the government failure in overtaking regulatory discretion, without eliminating overcomplexity in the financial system and the potential challenges caused by banks that are too-big-to-fail (Kim, Muldoon, 2015).

The discussion in this sub-section well illustrates the failure of the NCPE in the United States. At this point, on the one hand, it cannot be suggested exclusively in consideration of this failure that the NCPE has caused or is doomed to cause lower growth, lower real wages and higher inequality, higher indebtedness, deindustrialization, and the ascendancy of rent-seeking between policy-makers and business circles in each country and at the same density. On the other hand, as noted earlier, the NCPE's performance consequences were desperate, even catastrophic, for most of the developing countries that switched to the NCPE from a state-led import-substitutionist strategy mostly with the 1980s. Furthermore, the same holds for the developed countries, not only for the other liberal market economies apart from the US such as the UK (Hay, 2013), but also for illiberal market economies such as the Germany and the Japan, which had adopted the NCPE's prescriptions to countervail the pressure of world-wide financial and commercial liberalization. For example, Table 2 illustrates the performance consequences of the social market economy of the 1950s and 60s and the NCPE-dominated periods, the 1980s and in particular the post-1990s, in the Germany.

Germany's illiberal model was based on social market economy, consisting of a full-employment monetary and fiscal policy of conservative rather than Keynesian kind, a bank-based financial system having a joint-stock relationship with and issuing low interest, long-term credits to non-financial firms; a neo-corporatist model of corporate and sectoral governance between state, firms, and workers; collaboration between major industrial groups in generating new technologies and training workers in order to increase the external competitive power of the domestic industries; high real wages in commensurate with high labor productivity and secure jobs, etc. (Streeck, 1997). As Table illustrates, this model generated a superior economic performance in the 1950s and 60s in terms of growth, employment, factor productivity, and the equality of income considering the trade-off between real wages and labor productivity.

Table 3. Key Macro Economic Indicators of the German Economy, 1950-2016

	1950-60	1961-73	1974-82	1983-90	1990-98	1999-08	2009-16
GDP*	8.2	4.4	1.9	2.6	2.2	1.6	1.1
Consumption expenditures	…	2.5	1.1	1.4	1.2	0.5	0.6
Government expenditures	…	0.9	0.6	0.1	0.5	0.2	0.4
Private investment expenditures	…	1.0	-0.3	1.0	0.4	0.2	0.0
Total domestic demand	…	4.4	1.5	2.5	2.1	0.9	1.0
Net exports	…	0.0	0.4	0.2	0.2	0.7	0.1
Consumer Price Inflation*	1.9	3.4	5.0	1.7	2.8	1.6	1.1
Unemployment*	5.6	1.0	4.6	8.9	9.7	9.1	5.6
Gross public debt**	…	17.9	27.8	39.7	49.8	62.6	75.4
Fiscal balance**	…	-1.3	-3.6	-2.1	-3.0	-1.4	-1.0
Firms-net lending (+) net borrowing (-)***	…		-15.3	-1.8	-14.1	-2.8	74.5
Manufacturing sector*	…	4.9	0.9	2.3	1.1	2.5	1.9
Total factor productivity*	…	2.4	0.9	1.2	0.9	0.7	0.3
Labor productivity*	…	4.0	2.1	1.3	0.5	1.0	0.3
Real wages per head*	…	5.5	1.4	1.1	1.5	-0.1	1.2

Source: Destatis (2019).

*Annual change **As % of GDP ***As % of disposable income.

The Stagflation of the 1970s shattered the main pillars of the model, in particular the macro economic ones. From 1982 onwards, the country has adopted neoclassical policy recipes by cutting public consumption, investment, and social welfare expenditures in particular in the 1980s; increased indirect taxes while cutting direct, in particular corporate, taxes; conducted extensive privatizations; deregulated bureaucratic establishment; and promoted labor market flexibility. But these initivatives did not enable the country neither to renew the social market economy in a way to countervail the competitive pressure of globalization and unification mainly by achieving industrial sophistication in high value-added sectors, in particular in the information and communication technologies, nor to establish a new model based on free market capitalism. Instead, it generated lower growth, higher unemployment, higher inequality, more than doubled public debts, deindustrialization, sharp declines in total factor and labor productivity and in real wages, as well as an unquestioned bias among incumbent parties including the social democrats in favor of markets against workers. However, there are mainly three points that distinguish the German case from the United States in terms of the NCPE's negative outcomes (Braun, 2012).

First is that Germany's recovery from the Great Recession was drawn upon net exports rather than upon debt-financed consumption expenditures. Second, the country achieved lowering the rate of unemployment much rapidly. Third, the private sector gained net lender position. Underlying all these three dynamics has, inter alia, been the continuing strong capacity of competitive industrial production, in particular in medium-high value-added sectors, in the absence of a rampant process of financialization, which refrained the breakdown of the relatively equal rates of profitability in both financial and non-financial sectors and thereby a considerable decline in the industrialists' propensity to invest. A key point in this regard is that the country had established this productive capacity during the orthodox social market economy. Thus, it can be suggested that the NCPE's impact on the German model has apparently been in the negative direction but it is not as destructive as that on the US political economy. This is because the path-dependencies, accumulated continuities, of the German model have capacitated the country to maintain its industrial performance and mitigated the genesis and embedding of destructive consequences of a rampant process of financialization (Storm and Naastepad, 2015).

CONCLUSION

The analysis of the NCPE's theory and its praxis enables us to come to a number of conclusions. First, the Great Recession of 2008-09 revealed the failure of the the overarching dogmatic assumptions underlying the NSE's theoretical construction such as self-clearing markets, general equilibrium, and rational action with their epistemological roots. Second, the institutional trap facing the NCPE today lies not only in its theory but also in its politico-institutional practice. Third, the argument that the neoclassical economics will create higher efficiency in practice than Keynesian economics turns out to be false. Expectedly, these three conclusions point to the necessity of a theoretico-practical change in the NCPE.

Concerning the practical impact of this change in the USA, for example, Stiglitz (2016: 1) suggests that the rules of the American economy can be rewritten on condition of taking the laws, rules, and global forces head on noting that:

Our challenge, then, is to rewrite the rules to work for everyone. To do so, we must re-learn what we thought we knew about how modern economies work. We must also devise new policies to eliminate the inefficiencies and conflicts of interest that pervade our financial sector, our corporate rules, our macroeconomic, monetary, tax, expenditure, and competition policies, our labor relations, and our political structures. It is important to engage all of these challenges simultaneously, since our economy is a system and these elements interact. This will not be easy; we must push to achieve these fundamental changes at a time when the American people have lost faith in their government's ability to act in service of the common good.

As can be teased out of the discussion in the previous section, however, the American governments did not implement a sustained activist fiscal policy apart from a given period after the crisis to stimulate higher growth and did not regulate financial sector in a way to prevent it from becoming a bubble again over the nonfinancial sector. Nor did they adopt an activist industrial policy to restore the country's manufacturing sector to eliminate substantial manufacturing trade deficits (Baily, Bosworth, 2014) or a progressive strategy of taxation to improve inequality of income and increase aggregate demand (Alvaredo *et al*., 2013). In addition, they did not issue a labor law to enable organized labor to achieve real wage increases commensurate with labor productivity increases and did not introduce a decent social security and health-care regime, etc. These are the things that the American governments of the Post-War period did systemically and achieved a sustained recovery (see Table 1).

Among the factors preventing them from doing so over the last decade can be cited, inter alia, the lack of necessary fiscal space and the extreme indebtedness of the American state (Table 1), the financialized structure of American economy, the American multinationals' transferring their production plants and exporting jobs to abroad for cost minimization, rising competitive pressure from East Asia based on production and labor costs, much lower propensity to vote of the poor than the rich, flexible employment patterns that constrain the power of labor organizations, and so on. But the key reason that refrains the American governments from implementing these and similar policy choices in a systematic manner is their rent-seeking ties with financial/non-financial business

(Hacker, Pearson, 2011). A prospective initiative by the American government in increasing corporate or marginal taxes for the top decile, in empowering organized labor, in reimposing the Glass-Steagall Act, etc. would lead the business circles to cut their financial support to the political parties' campaigns that are the key to the latter's success. The Figure 2 shows the embeddedness of these ties not only between the Republicans and the business circles but also between the Democrats and the latter, too, as noted earlier.

What should be noted at this point is that not only the economic theories but also political theories of the NCPE collapsed, too. First, the PCT's thesis of rent-creation and rent-seeking fails for two things. The first is that the American state bailed out those innovative financial businesses that went bankrupt during their search for rent-creation in an unregulated market structure (Innovation here refers to the fabrication of overrisky financial derivatives). In other words, financial rent-creation ended up with the consolidation of rent-seeking ties between the state and the financial businesses rather than of the fiscal balances. The second is that this process drastically worsened the consumer utility as a result of the waste of tax resources in rescuing unviable enterprises, the misallocation of public funds, rather than in creating employment by funding viable manufacturing firms. Thus, it is not regulations but deregulations that create lower growth, higher indebtedness, and higher inequity. Rawls' idea of liberal social justice also turns out to be flawed, too. Table 2 well illustrates that there has neither been a fair equality of opportunity or outcome nor optimistic long-term expectations of the least advantaged. The existence of the inequality of opportunity incrementally increases the inequality of income rather than makes everyone better off. It is true that there are "the laws of moral psychology and the availability of human motives" in the contemporary American politics. But, these motives motivated the American financial businesses not to make sacrifices for broader interests but to expect the least advantaged to make sacrificies for the former's narrower interests. In other words, the NCPE's physchological power of persuasion deepens social injustice rather than social justice.

Overall, the NCPE's theoretico-practical construction has failed in structural terms. The kind of change that would undo this failure is a systemic one. But this systemic change is tantamount to eradicate the NCPE with its all trappings or to turn it into a branch of Keynesian political economics. Because this change requires the exclusion of not only the overarching dogmatic assumptions (minimal state, general equilibrium, rational expectations, and self-clearing markets) from the NCPE's theoretical construction but also the introduction of a visible hand in steering free-market exchange. There has yet to emerge any change of this kind apart from ad hoc interventions to sustain the established order, as was the case in the American economy. Instead, the NCPE has been in limbo at the level of theory and practice. How long this ambiguity will last remains to be seen.

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