

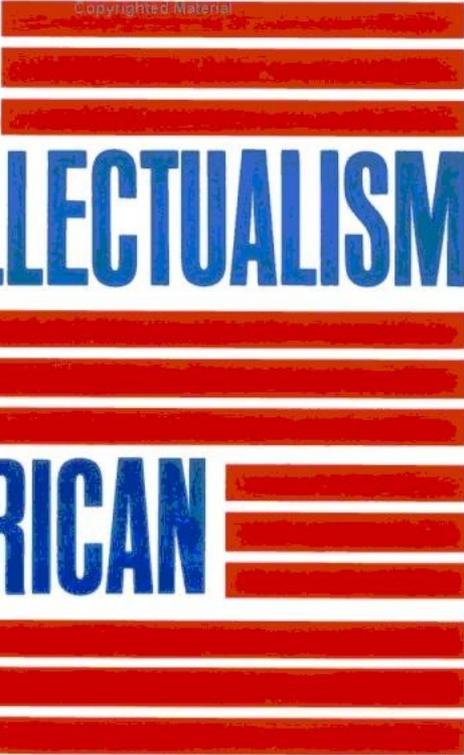
Hur rika länder blev rika och varför fattiga länder förblir fattiga: Krisen kommer til Vesten.

Erik S. Reinert

Tallinn University of Technology

The Other Canon Foundation, Norway

ANTI-
INTELLECTUALISM
IN
AMERICAN
LIFE

The title is set against a background of red horizontal bars. The bars are of varying lengths, creating a stylized, graphic effect behind the text.

**RICHARD
HOFSTADTER**

Winner of the 1964 Pulitzer Prize in Non-Fiction



There is a cult of ignorance in the United States, and there always has been. The strain of anti-intellectualism has been a constant thread winding its way through our political and cultural life, nurtured by the false notion that democracy means that "my ignorance is just as good as your knowledge."
- Isaac Asimov

Is Alexander Hamilton Owed His Ten Spot?

Published Tue, Jul 7, 2015 | [Martin Hutchinson](#), Global Markets Analyst

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The announcement by Treasury Secretary Jack Lew that Alexander Hamilton's portrait would be replaced on the \$10 bill by that of some suitable woman raised an outcry from those who recognize the

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The crisis that started in the 3rd World is now reaching the West.

- Third World 1970s: De-industrialization, falling wages and disappearing middle class in small Latin American countries.
- Second World 1990s: Massive destruction of industry in former Soviet Block. Wage collapse.
- First World 2010s: De-industrialization, falling wages, disappearing middle class, Brexit, Trump/Sanders.

We trusted an irrelevant theory

‘I think there’s a pretty good case to be made that the stuff that I stressed in the models is a less important story than the things that I left out because I couldn’t model them...’

Paul Krugman in *The New Yorker*,
March 1, 2010.

Harold Innis' (1894-1952) dynamic taxonomy of knowledge.

Science, communicated in '**Latin**', gets more and more abstract, and enters into alliances with the political elites (Veblen's *vested interests*).

Resistance to the ruling paradigm and the elites builds up among the '**vernacular**' (those who do not write Latin) and an overthrow may take place after a shock to the system.

Western Civilization is again and again saved by knowledge that for a time only survives in the periphery.

Damage control is still possible

Moving economic activities is an alternative to moving people (stopping de-industrialization).

Moving exchange rates (*devaluing* or *revaluing*) is also an alternative to moving people.

The Crisis in Europa: Background.

- Shock Therapy 1: Instant free trade and deindustrialization of the former Soviet Block after 1990.
- Shock Therapy 2: Instant integration of many former Soviet Republics into the EU on May 1, 2004. A ‘winner’ in the Baltic made 1 Euro an hour competing with China. A ‘loser’ in Frankfurt swept the streets for 10 Euro an hour: This resulted in a tendency towards falling wages and falling demand in the whole of the EU.

The Radical Shift in European Integration Policy.

1980s: Integration of Spain into the EU, gradually and making sure that advanced industrial clusters (e.g. automotive) survived. Wages kept high.

1990s and 2000s: 'Transition', integration of former Soviet republics, shock therapy and rapid deindustrialization created a low-income 'reserve army' of cheap labour inside the EU. Falling real wages.

Doing poorly: Latvia

- Currency union in the Euro
- Deindustrialization and increased debt coupled with a fixed exchange rate led to falling competitiveness and huge unemployment.
- An internal devaluation has led to wages falling by 25-30 per cent.
- Population has fallen by 20 per cent – 2,38 Million to 1,9 Million – since 2000.
- Number of children born reduced from 42.000 annually (1987) to 18.000 annually (2010).

Manufacturing matters: The lost wisdom we had after WW II.

“There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. **This division of labor is the basis of modern civilization.** At the present time it is threatened with breakdown.”

George Marshall, announcing the future Marshall Plan, Harvard, June 5, 1947

Forgotten economic understanding which is
now key to the Ukraine.

‘There is the illusion that the New
Germany left after the annexations can be
reduced to a *pastoral state* (i.e. without
industry). **It cannot be done unless we
exterminate or move 25,000,000 people
out of it’.**

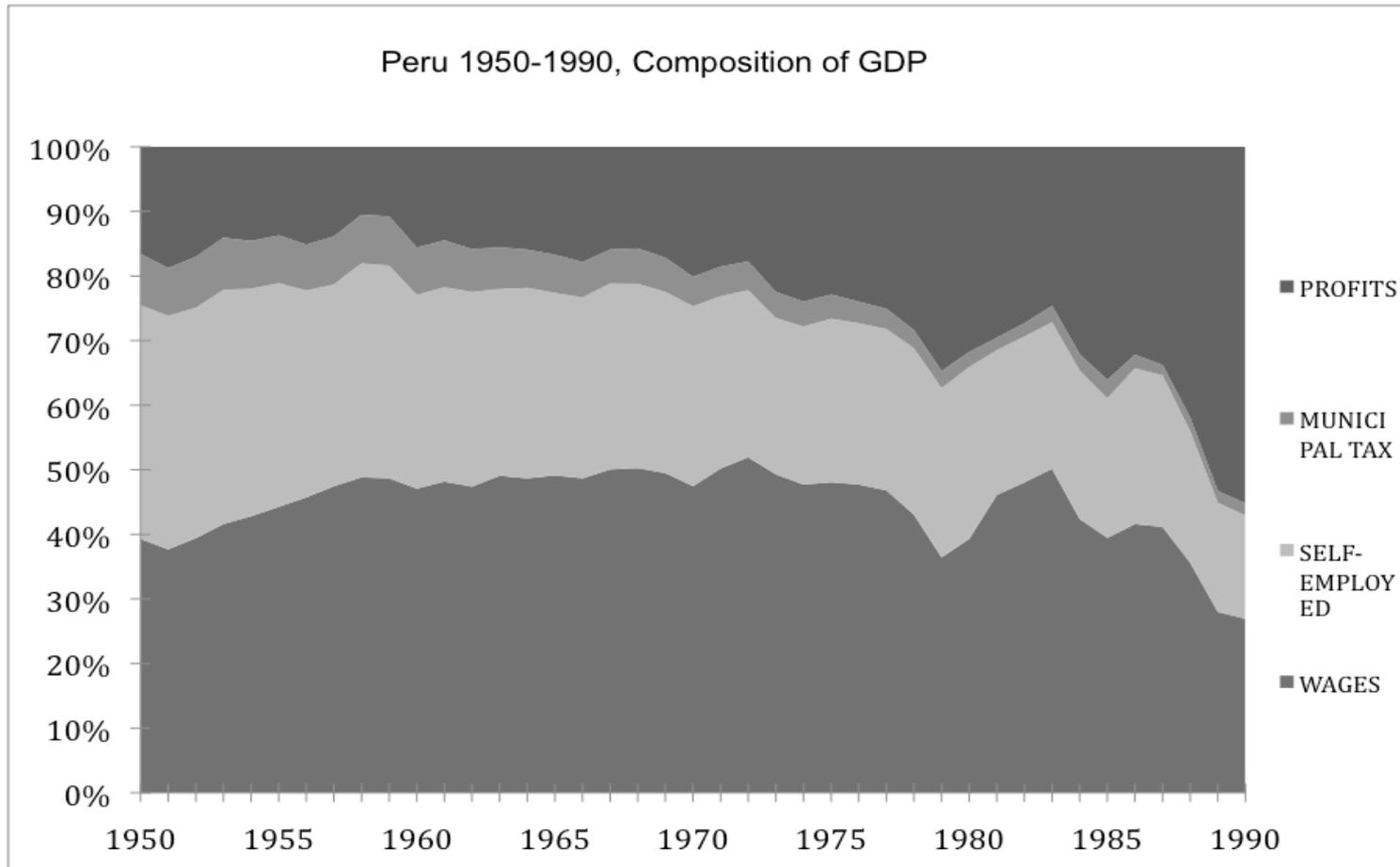
Herbert Hoover, Report from Germany to
President Truman, March 18, 1947.

Very old, but still valid wisdom.

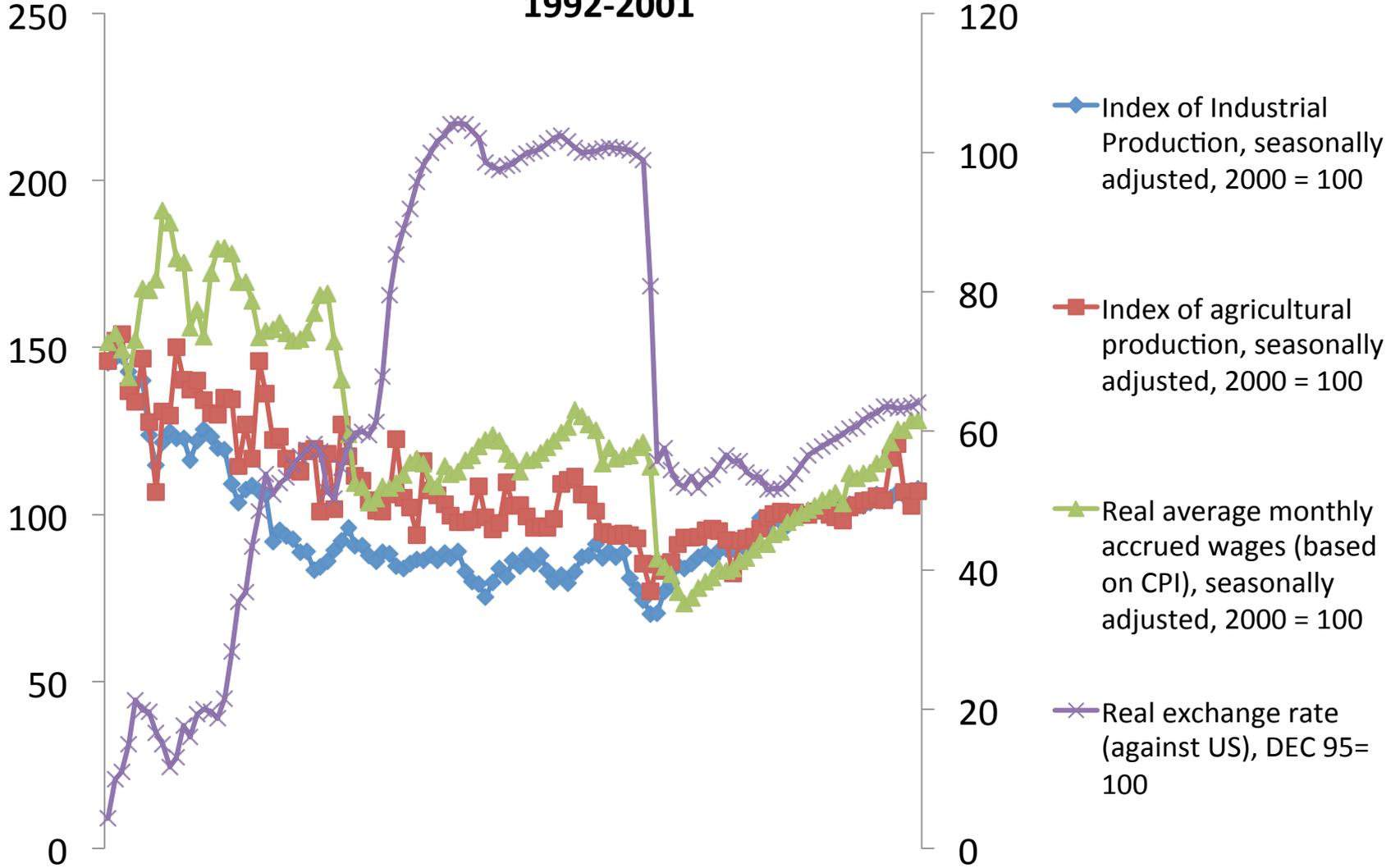
“From manufacturing you may expect the two greatest ills of humanity, superstition and slavery, to be healed”.

Ferdinando Galiani (1728-87), Italian economist.

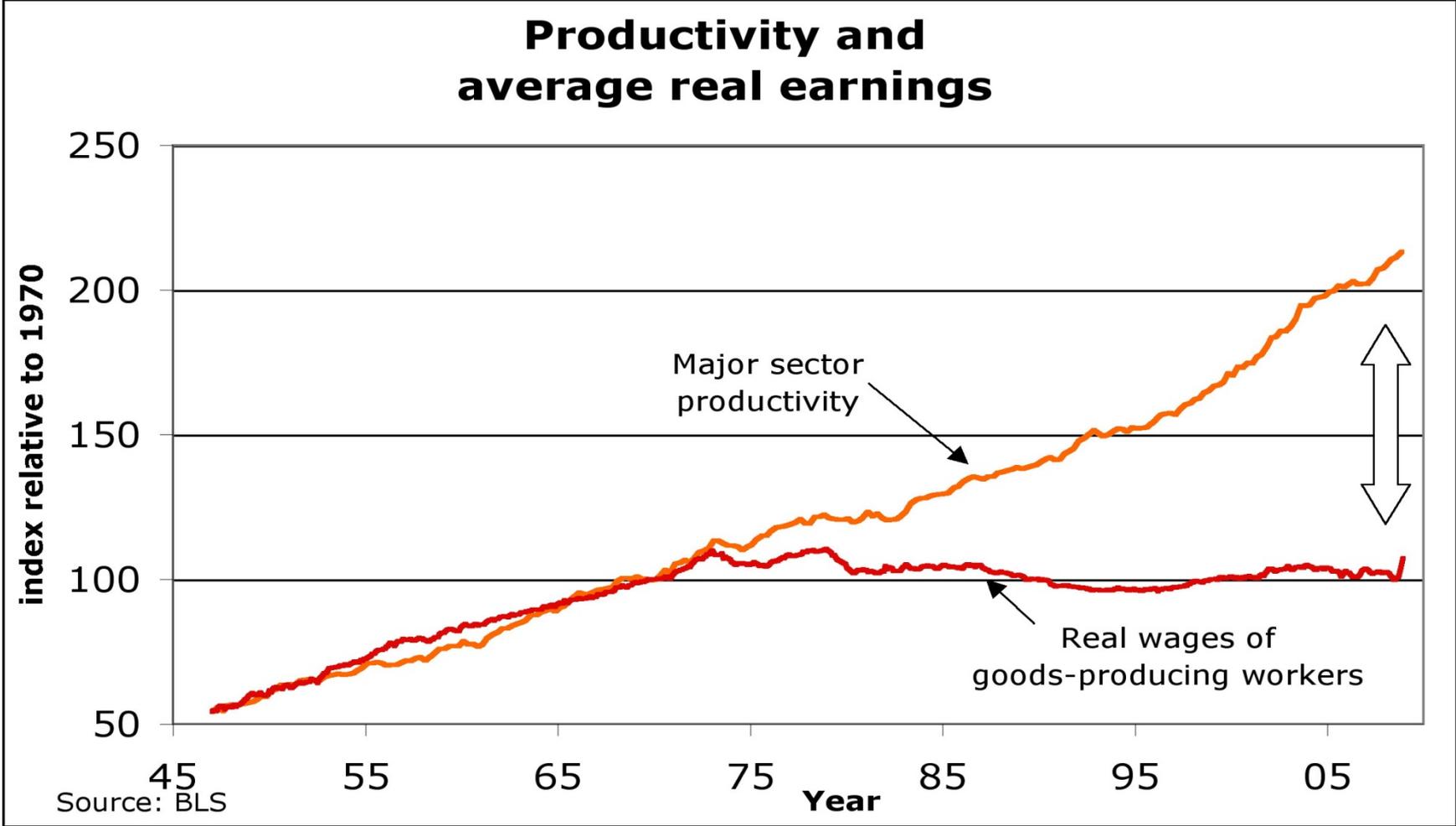
Profits as a percentage of GDP grows

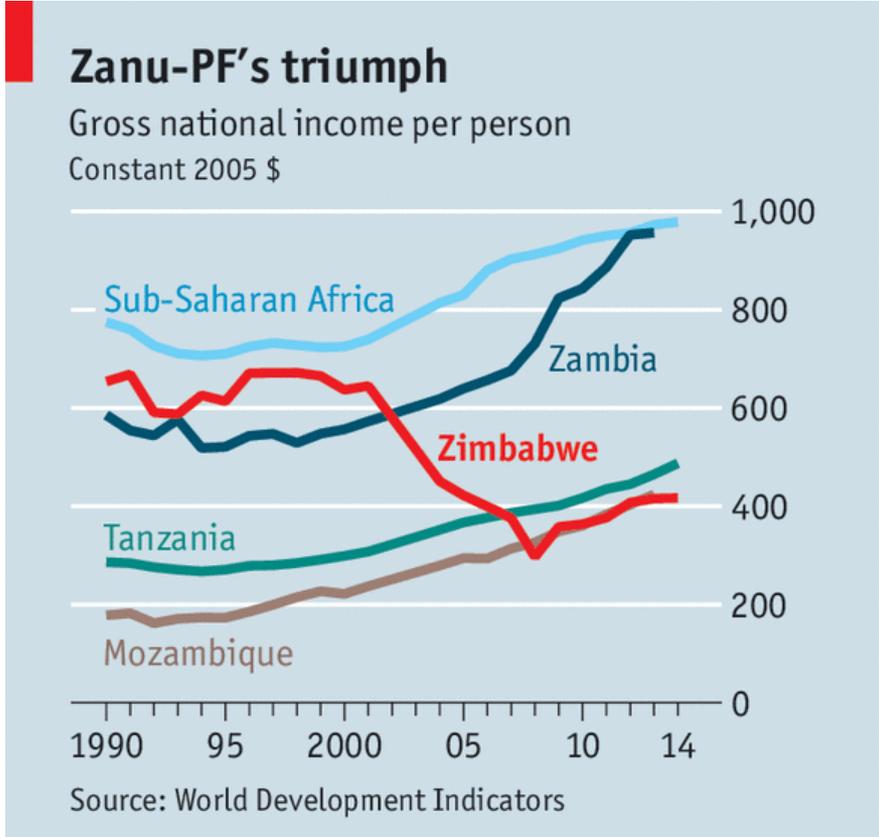


Russia: Exchange rate (right axis), real wages and production, 1992-2001



The wage system breaking up in the US: Productivity and wages split company







Om
Vigten och Betydelsen
af
Slöjder och Manufaktur.

för ett Samhälle,

utaf
FR. LIST,
Professor.

—
Med Företal och Noter

af
Öfversättaren.

—
STOCKHOLM.
Hörbergiska Boktryckeriet,
1840.

INFÖRSELSFRINET
OCH
SKYDDSFÖRFATTNINGAR,

betraktade ifrån erfarenhetens och
Historiens synpunkt

AF
FR. LIST,
Professor.

Med företal och tillägg

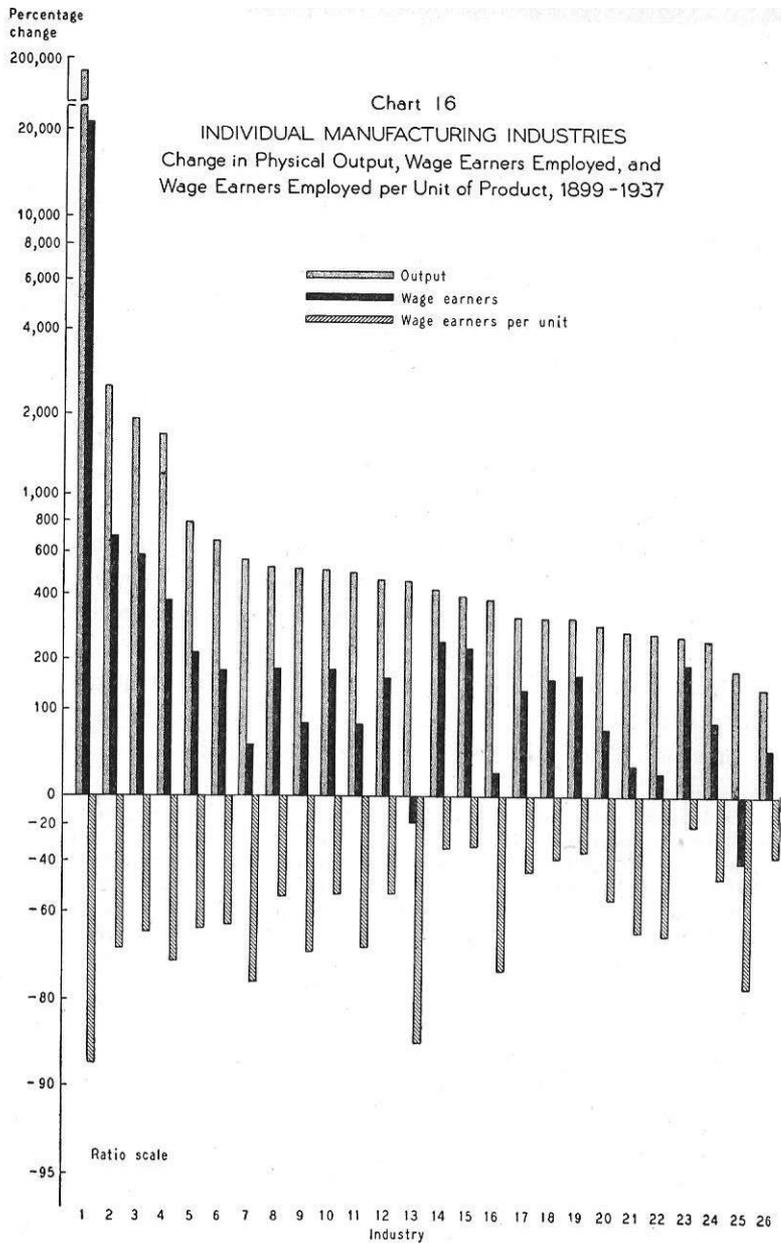
AF
Öfversättaren.

—
STOCKHOLM, 1840.
TRYCKT HOS P. A. NORSTEDT & SÖNER,
Kongl. Boktryckare.

The World Bank confirms F. List:

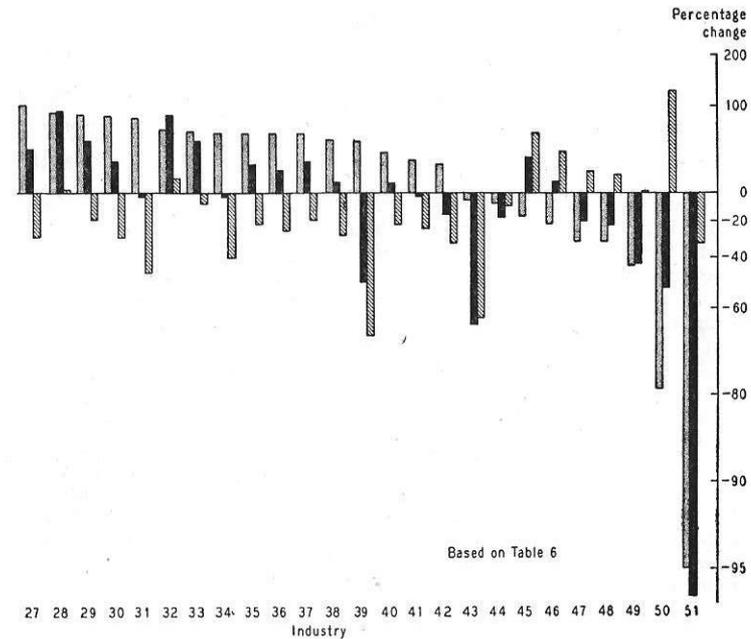
“Except for a few oil-exporting countries, no countries have ever gotten rich without industrialization first’

Justin Yifu Lin. World Bank Chief Economist, *New Structural Economics: A Framework for Rethinking Development and Policy*, Washington DC: World Bank Publications, 2012, p. 350.



- INDUSTRY
- 1 Automobiles, incl. bodies and parts
 - 2 Chemicals, industrial, incl. compressed gases and rayon
 - 3 Petroleum refining
 - 4 Beet sugar
 - 5 Fruits and vegetables, canned
 - 6 Ice
 - 7 Glass
 - 8 Paper and pulp
 - 9 Silk and rayon goods
 - 10 Knit goods
 - 11 Printing and publishing, total
 - 12 Butter, cheese and canned milk
 - 13 Cigars
 - 14 Rice
 - 15 Paints and varnishes
 - 16 Coke-oven products
 - 17 Zinc
 - 18 Liquors, distilled
 - 19 Steel-mill products
 - 20 Tanning and dye materials
 - 21 Copper
 - 22 Explosives
 - 23 Wood-distillation products
 - 24 Fertilizers
 - 25 Blast-furnace products
 - 26 Jute goods

- INDUSTRY
- 27 Cotton goods
 - 28 Hats, wool-felt
 - 29 Shoes, leather
 - 30 Cane sugar
 - 31 Salt
 - 32 Meat packing
 - 33 Cottonseed products
 - 34 Leather
 - 35 Woolen and worsted goods
 - 36 Liquors, malt
 - 37 Shoes, rubber
 - 38 Carpets and rugs, wool
 - 39 Lead
 - 40 Cordage and twine
 - 41 Gloves, leather
 - 42 Hats, fur-felt
 - 43 Chewing and smoking tobacco
 - 44 Flour
 - 45 Ships and boats
 - 46 Cars, railroad
 - 47 Lumber-mill products
 - 48 Turpentine and rosin
 - 49 Linen goods
 - 50 Locomotives
 - 51 Carriages, wagons and sleighs



The Quality Index of Economic Activities

Innovations & new technologies

Dynamic imperfect competition (high-quality activity)

Shoes (1850-1900)

Golf balls

Automotive paint

House paint

Shoes (2009)

Baseballs

Perfect competition (low-quality activity)

Characteristics of high-quality activities

- new knowledge with high market value
- steep learning curves
- high growth in output
- rapid technological progress
- high R&D-content
- necessitates and generates learning-by-doing
- imperfect information
- investments come in large chunks/are divisible (drugs)
- imperfect, but dynamic, competition
- high wage level
- possibilities for important economies of scale and scope
- high industry concentration
- high stakes: high barriers to entry and exit
- branded product
- produce linkages and synergies
- product innovations
- standard neoclassical assumptions irrelevant

Characteristics of low-quality activities

- old knowledge with low market value
- flat learning curves
- low growth in output
- little technological progress
- low R&D-content
- little personal or institutional learning required
- perfect information
- divisible investment (tools for a baseball factory)
- perfect competition
- low wage level
- little or no economic of scale /risk of diminishing returns
- fragmented industry
- low stakes: low barriers to entry and exit
- commodity
- produce few linkages and synergies
- process innovations, if any
- neoclassical assumptions are reasonable proxy

Giovanni Botero (ca. 1544-1617)



Giovanni Botero (1588)

“.... some will aske me; whether Fertilitie of Land, or Industrie of Man, importeth more to make a place Great, or populous? Industrie, assuredly. First because Manufactures framed by the skilfull hand of Man, are more in number, and price, than things produced by Nature: For Nature giveth matter, and subject: but the Curiositie and Art of Man addeth unspeakable varietie of formes. Wool, from Nature, is a rude and simple Commoditie: What fair things, how various, and infinite, doth Art make out of it?”

“Compare the Marbles, with the Statues, Colossuses, Columns, Borders, and infinite other Labours, taken. Compare the Timber, with the Galleys, Galleons, Vessels of many sorts, both of Warre, Burthen, and Pleasure: Compare also the Timber, with the Statues, the Furnitures for Building, and other things innumerable, which are built with the Plane, Chesill, and Turners-Wheele. Compare the Colours with the Pictures...(etc.)”

BREVE TRATTATO
DELLE CAUSE,
CHE POSSONO FAR ABBONDARE
Li Regni d'oro, & argento.

DOVE NON SONO MINIERE

Con applicatione al Regno di Napoli.

DEL DOTTOR ANTONIO SERRA,
della Città di Cosenza.

DIVISO IN TRE PARTI.



I N N A P O L I,
Appresso Lazzaro Scorriggio. M. DC. XIII.
CON LICENZA DE' SUPERIORI.

Antonio Serra's two key dichotomies useful for understanding wealth, poverty, and crises

Financial Economy vs. Production Economy
(i.e. the need to control finance)

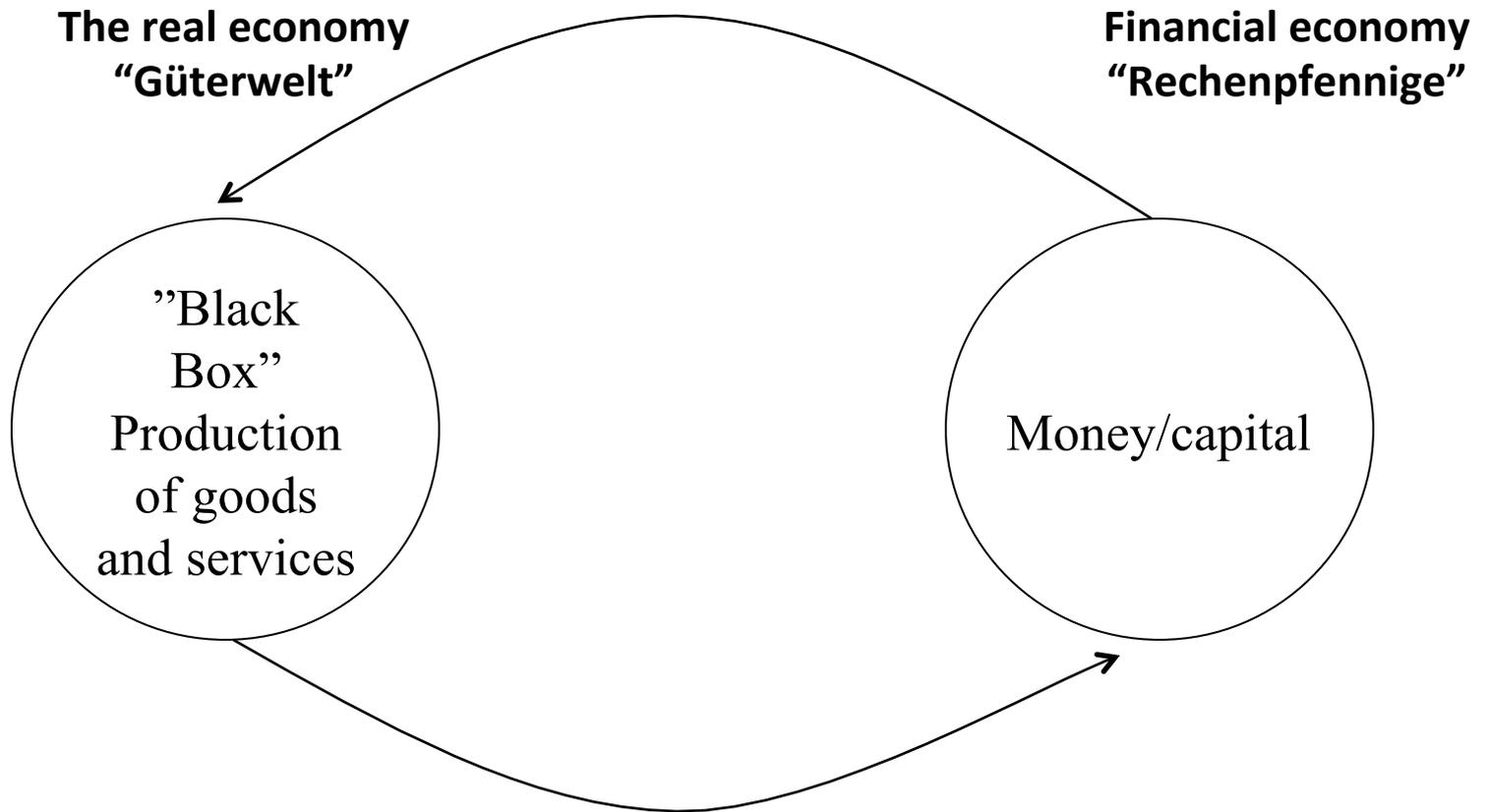
Increasing Returns vs. Diminishing Returns
(i.e. increasing returns, manufacturing, as key to
wealth)

Colonialism as a Technology Policy.

‘That all Negroes shall be prohibited from weaving either Linnen or Woollen, or spinning or combing of Wooll, or working at any Manufacture of Iron, further than making it into Pig or Bar iron: That they be also prohibited from manufacturing of Hats, Stockings, or Leather of any Kind... Indeed, if they set up Manufactures, and the Government afterwards shall be under a Necessity of stopping their Progress, we must not expect that it will be done with the same Ease that now it may’.

Joshua Gee, Trade and Navigation of Great Britain Considered, London, 1729.

The Circular Flow of Economics

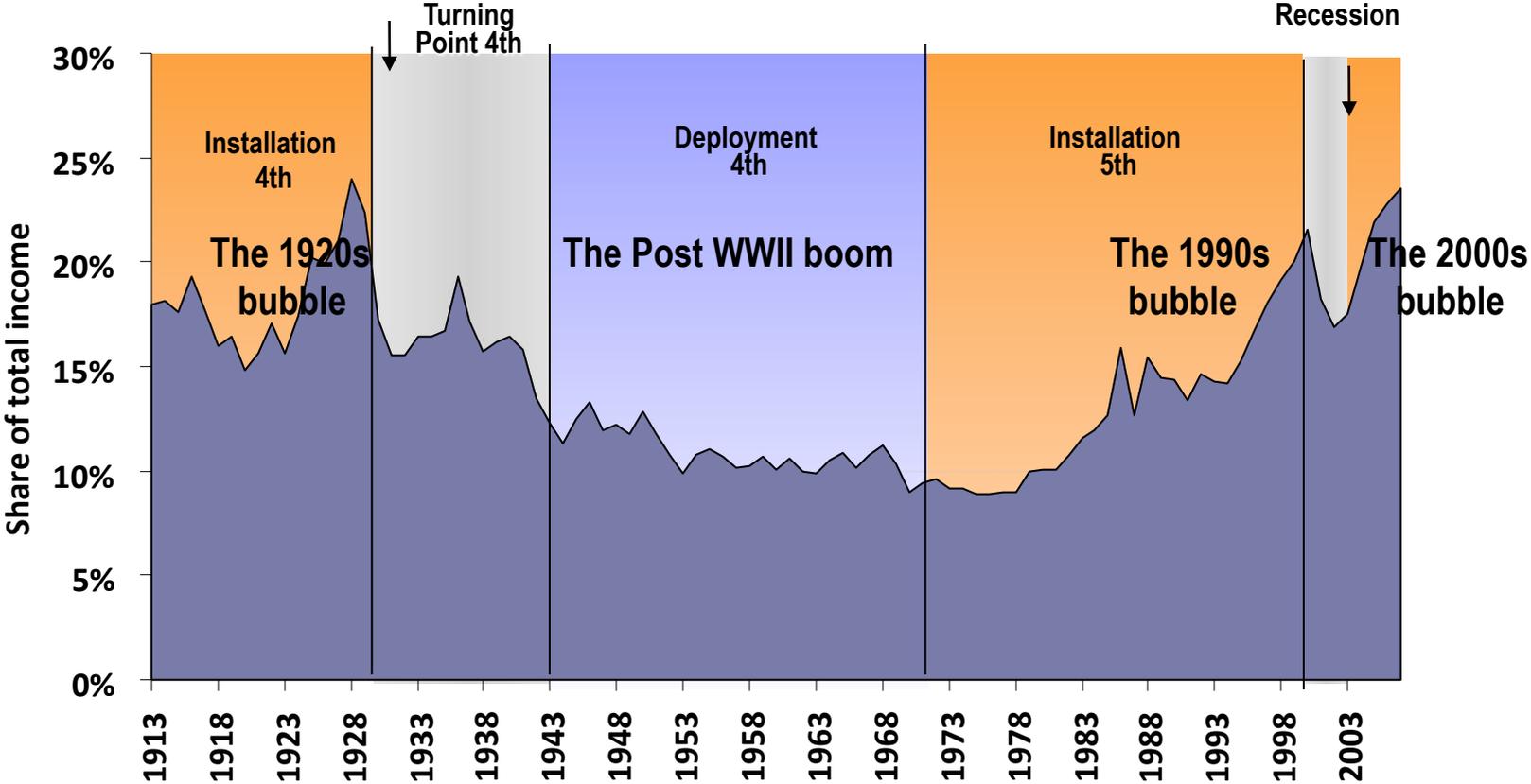


Finanssektor : 17899

Reeløkonomi : 66666



Percentage of income earned by the top 1% in the USA 1913-2007



Three Times Rise and Fall of 'Physics-based' Economics

| <u>School</u> | <u>Starting point</u> | <u>Peak</u> | <u>Death</u> |
|-----------------------------------|-----------------------|-------------|--------------|
| Physiocracy (‘Rule of Nature’) | Quesnay 1758 | 1760s | 1789 |
| Classical Economics | Ricardo 1817 | 1840s | 1848 |
| Neoclassical synthesis | Samuelson 1948 | 1990s | NOW |

The '1848 moment':

'It often happens that the universal beliefs of one age of mankind – a belief from which no one *was*, nor without an extraordinary effort of genius and courage *could* at the time be free – becomes to a subsequent age so palpable an absurdity, that the only difficulty then is to imagine how such a thing can ever have appeared credible...It looks like one of the crude fancies of childhood, instantly corrected by a word from any grown person.'

John Stuart Mill, 1848.

The 1848 Generation: three books – all published in 1848 – covering the whole political axis from left to right, all recanting Ricardo (i.e. lowering the level of abstraction).

- Marx & Engels, *Communist Manifesto*.
- Bruno Hildebrand, *Economics of the Present and the Future*.
- John Stuart Mill, *Principles of Political Economy*.