Neoliberal (Ricardian) Theory vs. Classical-Progressive Theory

Scope of economic theory and analysis

Neoliberal Theory	Classical and Progressive Era Reforms
Economic theory is a "science of assumptions." The criterion of excellence is their internal consistency.	Political economy should map empirical reality, not be a hypothetical exercise in science fiction.
Focuses on production and consumption, taxes and saving.	Focuses on wealth distribution and how debt creation diverts revenue from the production-and-consumption economy.
The economy is a single sector; all income and wealth are earned, reflecting their contribution to production and economic growth.	The FIRE sector is wrapped around the "real" production economy, extracting revenue. *Rentier* income and wealth are unearned.
Economies are best analyzed as if they operated on barter beneath their "veil of money." Debt and financial wealth merely reflect this underlying economy.	If economists ignore the financial sector's autonomous behavior, they will not recognize its wins at the point where its existence, and hence its deleterious effects: debt deflation and polarization between creditors and debtors.
MV=PT refers only to current output and commodity prices and wages.	Monetary analysis recognizes that most credit is created to buy assets, so focuses on asset prices.
The bankers'-eye view of the world is most realistic, because most wealth is financial.	The financial view looks at how much surplus revenue can be converted into debt service. This is self-terminating, because it is parasitic.
Debt leverage raises the return on equity.	Debt service diverts revenue away from new capital investment and employment.
Assumes that budget deficits are spent on labor	Recognizes bailout payments to banks and spending on infrastructure.

Political ideology

Government planning is the road to serfdom.	Every economy is planned by somebody. Removing planning from government shifts it to the financial sector.
Shifting planning to the financial sector and privatizing public enterprise on credit creates wealth by inflating asset prices.	Governments should take the lead in indicative planning and infrastructure investment to shape markets to work efficiently.
Central banks should be independent from democratic government.	Making a central bank independent replaces democracy with financial oligarchy.

A free market is free for *rentiers*, free from public price regulation, taxation of wealth and even from public infrastructure investment.	A free market is one free of unearned economic rent, including interest and financial fees, monopoly rent and resource rent.
There is a class war, and the rich have won – mainly the financial class. Attempts to reform the financial or tax system will cause economic collapse. The alternative to oligarchy and debt peonage is a bureaucratic road to serfdom.	The vested interests have fought back against the Progressive Era, but just as economic reform sought to save capitalism from the legacy of feudalism once, the fight can resume.
Minimize taxes so as to leave more revenue "free" to pay interest to banks.	Tax economic rent so as to hold down housing price inflation by leaving less "free" rent to capitalized into bank loans.
Economies live in the short run, but this is efficient, thanks to rational expectations.	Short-run economics is hit-and-run. Long-term investment is needed to raise productivity.
Inflating asset prices on credit is "wealth creation." It increases the balance sheet.	Inflating prices on credit simply raises the debt overhead – which remains in place to cause negative equity when the bubble bursts.
Bubbles create billionaires, whose wealth helps create jobs.	Bubbles transfer revenue and wealth from the "real" economy to creditors and bankers, who recycle their revenue into loans that indebt the rest of the economy to themselves.
Free markets neoliberal style need to be protected by a police state and censorship of alternatives (*viz*. the Chicago Boys in Chile).	If free-market policies require a police state, they are not free but totalitarian.

Fiscal Policy

A free market is free of government regulation or taxation of rentiers.	A free market is one free from unearned (*rentier*) income, and of monopolies and their pricing in excess of reasonable costs of production.
All income and wealth is earned; there is no free lunch.	FIRE-sector revenue is unearned, a reward for privilege, not socially necessary.
Prefers a flat tax on employment and value-added sales taxes. No tax on asset-price gains or business profits. Un-taxing property raises asset prices, creating balance-sheet wealth.	Progressive taxation should fall on the highest property and income brackets, especially on asset-price gains, not fall on employment, because wage taxes raise commodity prices.
FIRE revenue should be taxed at lower	Taxes should collect FIRE revenue, headed

rates, if at all,	by land and resource rent, monopoly rent, interest and financial charges.
Because the rich are "job creators."	Economic polarization destroys employment. By impoverishing the market, it encourages capital flight and emigration.
By lowering wage levels, fiscal austerity makes economies more competitive.	Austerity shrinks investment and makes countries more dependent on foreign financing.
Austerity squeezes out more debt service.	Austerity shrinks economies, diverting revenue from the investment needed to pay the debt overhead. So the debt burden increases.
Governments should cover deficits by selling off public enterprises and other assets.	Public infrastructure investment should be supplied on a subsidized basis, paid out of progressive taxation, to lower economy-wide costs of living and doing business.
Social Security and Medicare should be treated as user fees,	Social spending should be paid out of the general budget's progressive taxation,
paid in advance, and lent to government so that it can cut taxes on the wealthy and FIRE.	financed on a pay-as-you-go basis (as Adam Smith said that wars should be financed).
Every public attempt at regulation is counter-productive and self-defeating, because the market's "rational expectations" will undo it.	Government's proper role is to shape markets by progressive taxes, rules and regulations.

Neoliberal Trade Policy	**Progressive Trade Policy**
Wage rates are the main variable. Cutting wages is the key to lower prices, as capital goods have a common world price.	The cost of living and doing business consists mainly of payments to FIRE. Cutting debt service, employment taxes and debt-inflated housing costs reduce employment overhead.
Aims to lower wages by about 30 percent.	Reduce the cost of employment by shifting employment and sales taxes onto FIRE
Does not recognize wage/productivity feedback	Higher wages are needed to raise productivity.
Austerity programs go together with privatization sell-offs to pay public debts.	Rejects paying debts where this involves transforming social relations inequitably.
Takes existing wealth distribution and institutions for granted.	Foreign trade transforms economic and political structures, for better or worse. Therefore, protectionist trade policy is needed.

Assumes that price and income adjustments will automatically keep trade and payments in balance.	Imbalances are financed by debt, whose interest charges mount up to polarize the international economy.
It is most efficient to specialize and depend on the US and EU for food imports and credit.	Food and debt dependency lead to debt at interest, polarizing the global economy.
Finance is cosmopolitan, and hence peaceful.	Finance is ultimately national, when money is created by central banks.
Open trade and capital markets are peaceable, replacing war.	Finance aims at what military conquest seeks: the land, natural resources and their rent, and tribute. Finance simply achieves this at a lower cost (= “more efficiently”) than open warfare.