Modern (American) Capitalism: A Three Act Tragedy

Mark Setterfield*

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Abstract

This paper examines the process of demand formation in capitalist economies characterized by high levels of household indebtedness, with a particular focus on contemporary developments and their sustainability. The thesis developed is that over the past 35 years, supply-side economics hollowed out the core of the demand-generating mechanism in US capitalism, with disastrous consequences. Particular attention is focused on the interplay of growing inequality, emulation effects, the erosion of social provision, household debt accumulation, and the evolution of consumption spending. The unsustainability of these processes gives rise to a discussion of initiatives that might alter the process of demand-formation so as to make it both more equitable and more sustainable.

JEL codes: E12, E21, E24, E25, E61, E64

Keywords: Neoliberalism, supply-side economics, zapping labor, incomes policy based on fear, household debt, financial fragility

1 Introduction

After years of basking in the glow of the “Great Moderation” or NICE (non-inflationary, continuous expansion) era, academics and policy makers alike in the US and UK – the epicenters of the post-Thatcher/Reagan neoliberal economy – were taken aback by the sudden onset and subsequent calamity of the financial crisis and Great Recession in 2007-09. Focusing on the US economy, we argue that this sequence of events constituted a three act tragedy. The much-vaunted supply-side economics promoted in the 1980s (Act I) hollowed out the core

*Professor of Economics, New School for Social Research; email mark.setterfield@newschool.edu. Paper in preparation for special issue of Social Research: An International Quarterly on “Rethinking Capitalism”.

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of the demand-generating mechanism in US capitalism. This it achieved through the (still ongoing) destruction of middle-class incomes that has forced American households into a new era of debt-dependency (Act II). The negative consequences of these developments for the long-term sustainability of American capitalism are difficult to reform, leaving us with the bleak possibility that the problems created by neoliberalism are intractable (Act III).

The focus throughout the paper is on the process of demand formation in capitalist economies, with particular attention paid to the interplay of growing inequality, emulation effects, the erosion of social provision, household debt accumulation, and the evolution of household consumption spending. The unsustainability of these processes was demonstrated by the onset of the financial crisis and Great Recession, but their structural “drivers” remain in place, suggesting that neoliberalism is an exhausted growth regime that nevertheless remains institutionally entrenched. This observation suggests that while it is possible to contemplate initiatives that would alter the process of demand-formation so as to make it both more equitable and more sustainable, the difficulties of achieving such outcomes are formidable.

The remainder of the paper is organized as follows. In section 2, Act I of the tragedy (neoliberal supply-side economics) is characterized as a process of “zapping labor” (Harrison and Bluestone [1988]) in order to create an “incomes policy based on fear” (Cornwall [1990]). Section 3 discusses the unintended demand-side consequences of neoliberalism as Act II of the tragedy, involving a sorry tale of growing inequality, increasing household indebtedness, and unsustainable demand formation. Section 4 brings us to Act III: the neoliberal inheritance, or, the (im)possibility of “reformist” solutions to the problems created by neoliberalism. Finally, section 5 offers some conclusions.
2 Act I – The Neoliberal supply side

According to its progenitors, neoliberalism would work by freeing the private sector from the fetters of the state and revitalizing the supply-side of the economy. In particular, the labor market would be made flexible: disincentives to work such as taxes and benefits would be lowered, and impediments to wage adjustment, such as trade unions and minimum wage legislation, would be removed. The result, it was promised, would be more jobs, more output, and hence a healthier economy overall. Even the increased inequality associated with the initial changes to the structure of taxes and social benefits would eventually be offset as output gains “trickled down” to those at the bottom of the socio-economic scale.

Macroeconomic performance did, in fact, improve in the US after 1990, as compared to the previous two decades. As the first two rows of table 1 make clear, the first full business cycle of the neoliberal era (1990-2000) re-established the low average rates of unemployment and inflation last seen towards the end of the post-war “Golden Age” (represented by the period 1960-73 in the first column of table 1). This improvement in macroeconomic performance did not occur because of the effects of neoliberalism as envisaged by its progenitors, however. Instead, changes to the supply-side of the economy during the 1980s constituted a process of “zapping labor” (Harrison and Bluestone, 1988). Post-1980 changes in public policy that claimed to make labor markets more flexible, together with various contemporaneous changes in corporate behavior, all succeeded in markedly increasing worker insecurity. These changes included: the emergence of a credible threat (on the part of firms) to relocate production between political jurisdictions; changes in labor law that, among other things, made unionization by workers more difficult and de-unionization by firms easier; increases in “non-standard” (i.e, part time and/or temporary) employment; periodic “downsizing” exercises that created the threat of unemployment independently of trade conditions; and pro-corporate globalization. The latter did not simply expose domestic workers to competi-
Table 1: US Macroeconomic Performance, 1960-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>4.9</td>
<td>6.8</td>
<td>7.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.1</td>
<td>9.6</td>
<td>5.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Wage share</td>
<td>57.4</td>
<td>59.1</td>
<td>58.4</td>
<td>57.7</td>
</tr>
<tr>
<td>Interest rate</td>
<td>4.77</td>
<td>7.67</td>
<td>9.97</td>
<td>5.24</td>
</tr>
<tr>
<td>Worker insecurity</td>
<td>N/A</td>
<td>0.21</td>
<td>0.57</td>
<td>0.82</td>
</tr>
</tbody>
</table>

Source: Setterfield (2006)

The process of zapping labor so described made the neoliberal economy work by instituting an “incomes policy based on fear” (Cornwall 1990). First, workers were disempowered. This reduced their ability to bargain for wage increases, lessening their capacity to either seek improvements in their standard of living or even increase wages in the face of rising prices in an attempt to protect their existing standard of living. Since either action re-

\[1\] Details of the calculation of this insecurity index can be found in Setterfield (2005) and Setterfield and Lovejoy (2006).
results in an increase in the costs of production that may be passed on in the form of higher prices, the disempowering of workers thus reduced inflationary pressures in the US economy. This development is clearly seen in the second row of table [1] where following its rise during the 1970s, inflation fell during the 1980s and 1990s. By relieving pressure on inflation, the incomes policy based on fear simultaneously reduced the need for the Federal Reserve to perform this function themselves. The central bank can relieve inflationary pressure by maintaining high interest rates designed to depress the aggregate demand for goods, increase unemployment, and so discipline workers into accepting more modest wage increases (that translate into smaller price increases). But the incomes policy based on fear made this unnecessary: the very structure of the labor market created by the process of zapping labor now disciplined workers, eliminating the need for high unemployment to perform this task.\footnote{Even Alan Greenspan was wise to this effect, referring in Congressional testimony to the “labor market fear factor” gripping American workers as a reason for diminished inflation concerns at the Fed.} This freed the Fed to lower interest rates and allow unemployment to fall (and with it, incomes and hence profits to rise). Again, these developments are evident in table [1] (rows one and four), where marked declines in both interest rates and the rate of unemployment can be seen after 1990. In this way, the neoliberal restitution of Golden Age standards of macroeconomic performance evident in column five of table [1] (rows one, two, and four), where we see the return of a low inflation, low unemployment, and low interest rate economy in the US for the first time since the early 1970s, can be explained by the process of zapping labor evident in row five of the same table, and its creation of an incomes policy based on fear. Taken together, these developments describe a process of “balancing the macroeconomic books on the backs of workers” \cite{Setterfield2006}, wherein the costs of achieving improved macroeconomic performance are borne uniquely by working households.

So neoliberalism worked, but not as advertised. Or did it? Arguably not, and even as the events described above were unfolding and giving rise to seemingly palatable macroeconomic
outcomes, some macroeconomists were warning of danger ahead – specifically, concern that:

the incomes policy based on fear during the 1990s has had adverse effects on the aggregate demand generating process in the US economy, the full consequences of which have yet to materialize ... the seemingly dichotomous treatment of the demand and supply sides [in the account above of how neoliberalism works] ... masks the potential for a deeper malaise arising from the interdependence of supply and demand, as a result of which the supply-side “solution” to the problem of reconciling low unemployment with low inflation interferes with the process of demand generation so as to ensure that the potential for simultaneous low inflation and unemployment cannot be realized in practice. (Setterfield, 2006, p.61; emphasis added).

These concerns are summarized succinctly by the reference in the title of Palley (2002) to “economic contradictions coming home to roost”. So what were the problems that gave rise to such consternation?

3 Act II – The Neoliberal demand side

What the various macroeconomists referred to above had all spotted (in one form or another) was a structural flaw on the demand-side of the neoliberal economy emanating from the real wage-productivity disconnect. This is clearly illustrated in figure 1, which is reproduced from Palley (2009) and shows the compensation of production workers (who make up approximately 80% of the workforce) roughly keeping pace with the expansion of productivity (output per person) until the 1970s. By the end of the 1970s, however, the two series have become decoupled, workers compensation stagnating even as productivity continues to rise apace. This last development is the real wage-productivity disconnect.

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3The same concerns are summarized still more dramatically, and with what appears now to have been near-omniscience, by the title of Godley and Izurieta (2002): “The case for a severe recession”.

4Real wages are simply wages (in money terms) expressed in terms of what they can buy, and thus measure workers’ standard of living. Real variables in economics are measured in physical units of account – quantities of goods and services in this case – rather than in monetary terms.
Figure 1: Productivity and Hourly Compensation of Production and Non-Supervisory Workers, 1959-2005 (1959 = 100)

*Source: Palley (2009, p.8)*
But why is this important? Some simple but unpleasant arithmetic reveals the nub of the problem. Suppose we begin by describing total real income \((Y)\) as the sum of total real compensation (the real wage, \(w\), multiplied by the number of workers employed, \(N\)) and total real profits (\(\Pi\)):

\[
Y = wN + \Pi
\]

If we now divide through by \(Y\) on both sides of this equation, we get a preliminary expression for income shares (the way that total income is divided up between wages and profits):

\[
1 = \frac{wN}{Y} + \frac{\Pi}{Y}
\]

Finally, we can re-write our expression for income shares as:

\[
1 = wa - \pi
\]

or:

\[
\pi = 1 - wa \tag{1}
\]

where \(\pi\) denotes the profit share of income, and the wage share of income is decomposed into the real wage multiplied by the labour-output ratio \((a)\). This last variable describes how much labor is required to produce one unit of output. It is the reciprocal of the level of labor productivity (output per person) that appears in figure 1. In other words, as productivity rises (as in figure 1), the labor-output ratio, \(a\), falls. It then becomes clear that the relentless productivity growth illustrated in figure 1 necessarily implies an ever-falling value of \(a\) in equation (1). The significance of this last observation is equally clear from equation (1) itself: a decrease in \(a\) without an accompanying increase in the real wage, \(w\), implies an ever increasing rise in the profit share of income (and accompanying decline in the wage
share of income)! Referring back to figure 1 we can see that this is exactly the pattern (rising productivity and hence a falling value of $a$ without any accompanying rise in the real wage, $w$) that was established in the US economy under neoliberalism. Finally, note that the prediction of a falling wage share based on the behavior of the data in figure 1 and the income accounting in equation (1) is corroborated by row three of table 1: a steady fall in the wage share is exactly what we observe after 1980.

How did all this come about? The answer is that it was a by-product of neoliberal supply-side economics, properly understood as a process of zapping labor to create an incomes policy based on fear. As previously noted, workers were disempowered by neoliberalism. This reduced their ability to bargain for wage increases, which not only reduced their capacity to contribute to inflationary pressures (as described earlier), but also lessened their ability to increase wages at the expense of profits or even defend the wage share of income against the encroachment of profits. The result has been the decline of the wage share since 1980 evident in table 1.

In sum, the simultaneous decline in the wage share of income and rise in worker insecurity after the 1970s was no coincidence: the latter explains the former, just as it was shown earlier to explain other developments in the US economy after 1980. It is worth stopping to note at this juncture that as such, the notion that the acme of neoliberalism was to zap labor and so restore macroeconomic performance by instituting an incomes policy based on fear successfully explains the co-movements of all five of the variables reported in table 1.

The implications of the declining wage share have been devastating for the majority of American households – which is not surprising, since most households derive most of their income from wages. This is clearly illustrated in figures 2 and 3, which are reproduced from

\footnote{This is because the ownership of wealth in the US – and especially the ownership of non-housing wealth that generates monetary incomes for its owners – is extremely unequal. As such, although the functional distribution of income (the division of total income between wages and profits) is not the same as the size distribution of income (that measures the frequency with which households earn incomes of a particular size, regardless of its source), the two distributions are related. See, for example, [Glyn (2009)] and [Atkinson].}
and show the growth of household income by quintiles of the size distribution of income, together with the growth of income experienced by the top 5% of households in the size distribution of income. Figure 2 shows that throughout the post-war era prior to 1979, the growth of incomes was remarkably equal. Consistent with real wages tracking the growth of productivity in figure 1 and keeping the distribution of income between wages and profits roughly constant, this sufficed to keep the income shares of different quintiles of the size distribution of income (and the share of the top 5%) roughly constant. But figure 3 shows that after 1979 this pattern changed dramatically. Consistent with the real wage productivity growth disconnect that emerged during the neoliberal era, the incomes of households at the top end of the income distribution – and in particular, the incomes of households in the top 20% and especially the top 5% of the distribution, where income-generating-property ownership is concentrated – grew much faster than incomes in the bottom 80% of the distribution (where households that depend exclusively on wage income are concentrated). This pattern of unequal growth resulted in ever more income becoming concentrated in the hands of households at the top of the income distribution – in other words, it resulted in the large increases in income inequality and increasing share of total income that accrues to top income earners that have been extensively documented elsewhere (see, for example, Atkinson et al. (2011) and Piketty (2014)).

But what does any of this have to do with the demand-side of the economy? Simply put, income fuels consumption spending by households, and consumption spending makes up 70% of total expenditures in the economy (aggregate demand). Slow income growth for the majority of households therefore translates into slow growth of consumption spending by these same households. This is not offset by increased consumption spending arising from the faster income growth experienced by top earners, because much more of these top incomes...
Figure 2: Change in Real Family Income by Quintile (and Top 5%), 1947-79

Figure 3: Change in Real Family Income by Quintile (and Top 5%), 1979-2005

Source: Kotly (2008, p. 2)

Source: Kotly (2008, p. 1)
is *saved* rather than spent. The result, it would appear, is a crisis of demand formation, as the majority of households need to rein in the growth of their consumption spending in conformity with their diminished income growth.

In fact, a crisis of demand formation was *not* the immediate consequence for the neoliberal economy. This was because of the new-found willingness and ability of households to accumulate debt to finance consumption spending that they were unable to fund from income. In a nutshell, the mantra of the neoliberal demand-side became “No income growth? No problem! Put it on the plastic!” (although as a matter of fact a great deal of the household borrowing that occurred after 1990 took the form of mortgage debt secured by housing wealth created by rising housing prices, not unsecured credit-card debt). The increased willingness of households to borrow in order to spend can be explained by two factors. First, aspirations grow even if income does not. This is partly a result of the “American dream” (each generation both aspiring and expecting to be better off materially than their parents). During the neoliberal era, however, this phenomenon was ramped up by a mixture of rapid product innovation (especially in information and communications technology) together with mass-media focus on these new products and the lifestyles of those who used them, coupled with the established phenomenon of “keeping up with the Joneses” (the fact that consumption is a referential, positional, *social* process rather than something undertaken by individuals acting in isolation) (Cynamon and Fazzari, 2008). The second factor was the process of “running to stand still”: the need for households to make up for declining public provision by accumulating debt merely to accomplish the same outcomes as previous generations. For example, rising tuition fees in post-secondary education mean that individuals must now accumulate more student loan debt in order to earn a college education.

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7See, for example, Carvalho and Rezai (2016) on the propensity to save of top income earners.
8It should be noted that not all aspects of social provision fell during the neoliberal era, despite the Thatcher/Reagan emphasis on “rolling back the frontiers of the welfare state”. Indeed, the case can be made that from the mid-1990s onwards, some aspects of social provision increased sharply in order to “subsidize” the operation of low-wage-growth neoliberal labor markets (Moos, 2017). The focus here, however, is on
Meanwhile, the ability of households to borrow was facilitated by easier and cheaper credit resulting from various financial sector innovations, including widespread credit reporting that increased lender confidence in the assessment of credit-worthiness, “cash out” mortgage refinancing, and the securitization and sale of debt (including mortgages and auto loans) that had previously been held by banks, purportedly so as to disperse and diminish risk. Not surprisingly, household debt rose sharply during the neoliberal era, the pace of household debt accumulation even accelerating after 2000 (see figure 4).

Figure 4: Household Debt as a Proportion of GDP

Source: Cynamon and Pассив (2006, p. 18)

On the face of it, then, household debt accumulation was a timely offset to the potential crisis of demand formation associated with the stagnant real wage growth and rising household income inequality created by neoliberal supply-side economics. At the same time, aspects of social provision – such as public higher education – that now require a larger private contribution.  

9 Figure 4 also makes clear the point made earlier, that much of the increase in household borrowing was driven by the accumulation of mortgage debt and was therefore associated, in part, with the bubble in the US housing market prior to 2006.
Table 2: Distribution of household debt by income

<table>
<thead>
<tr>
<th>Household type</th>
<th>Average income</th>
<th>Average debt</th>
<th>Debt to income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000 (66% of households)</td>
<td>$23,090</td>
<td>$68,918</td>
<td>2.98</td>
</tr>
<tr>
<td>$50,000 (66% of households)</td>
<td>$112,232</td>
<td>$157,681</td>
<td>1.40</td>
</tr>
</tbody>
</table>

Source: Palley (2002)

However, household debt accumulation was sowing the seeds of the destruction of neoliberal growth, by creating an economy characterized by increasing financial fragility and risk of collapse. First, and as might be imagined (given that the motivation for household debt accumulation was the stagnation of wage income experienced by all but the top end of the income distribution), household debt accumulation was not equally distributed. As table 2 indicates, while the absolute levels of indebtedness incurred by households in the top third of the income distribution were larger than those incurred by households in the bottom two thirds, it was the latter group of less well off households that accumulated the highest debt to income ratios – patterns evident even as early as the year 2000, before the acceleration of household debt accumulation shown in figure 4 occurred. This is significant because while the purpose of debt accumulation by less affluent households was to make up for a lack of income growth (that would otherwise have impaired consumption), debt accumulation makes demands on household income because it sets up debt-servicing commitments (interest payments and payments towards principal). So as households – particularly lower-income households – accumulated more debt relative to their total income, the debt servicing claims on what remained of their income steadily increased. This is clearly illustrated in figure 5.

The significance of this last observation – and its relationship to the increasing financial
Figure 5: Debt Service as a Proportion of Disposable Income

Source: Cynarson and Fazzari (2008, p. 32)
fragility and risk of collapse alluded to earlier – can be illustrated as follows. First, consider the plight of households that borrow to finance consumption spending that they are unable to fund from current income. As previously explained, this initial act of borrowing results in the accumulation of debt, which in turn results in a debt-servicing commitment in subsequent periods. This debt servicing commitment reduces the amount of disposable income available for consumption, which puts pressure on already indebted households to borrow more in order to finance consumption spending. This will, of course, add to total indebtedness, increasing further the debt-servicing obligations of debtor households, further constraining the availability of income for consumption spending, thus increasing borrowing requirements, and so on. The situation has all the makings of a vicious circle.

Now consider the consequences for demand formation of the vicious circle just described. The debt service payments of debtor households are received as income by rentier households – i.e., more affluent households that save some part of their total income and thereby act as creditors. But as previously noted, these rentier households are more likely to save rather than spend any additional income they earn. In other words, as soon as less affluent households start to borrow in order to finance consumption spending, they inadvertently set up a transfer payment scheme (their debt servicing obligations) that redistributes total income towards more affluent households that are less likely to spend the additional income they earn. In and of itself this redistributitional feature of debt accumulation by less affluent households acts to reduce total consumption spending, and is thus inimical to demand formation. Moreover, should less affluent households continue to accumulate debt as a means of relieving the income constraint on their consumption spending, the resulting debt servicing obligations may eventually become overwhelming, resulting in default. This makes debtor households bad credit risks, constraining their ability to borrow (and hence spend). It also reduces the wealth and confidence of rentier (creditor) households, making them less able
and less inclined to both lend or even, themselves, spend on consumption goods. In the worse case scenario, these events do not just have negative effects on demand formation and hence economic activity, they result in a full-blown financial crisis and the onset of a deep recession or even depression.

To summarize: neoliberal supply-side economics constituted a process of zapping labor so as to construct an incomes policy based on fear. This so tamed the growth of wages as to result in a disconnect between real wages and productivity. The real wage-productivity disconnect created rising income inequality as the wage incomes of the majority of households stagnated, so undermining the process of demand formation – a problem masked by the increasing willingness and ability of US households to accumulate debt in order to finance consumption spending. The process so described was, however, unsustainable, giving rise to a financially fragile and crisis-prone form of capitalism even as the neoliberal economy seemingly prospered through 2007. The climax of these events was, of course, the 2007-09 financial crisis and subsequent Great Recession – a near depression that constituted the most severe downturn in the US economy since the 1930s. The continuing real wage-productivity disconnect in the US economy, and the resultant hollowing out of the key source of income growth for the majority of US households, meant that in the immediate aftermath of the Great Recession the US economy stood at a crossroads: “wind up the clock-springs” of unsustainable household debt accumulation once again; or confront a future of secular stagnation (slow economic growth and persistent slack in the labor market). The failure of the US economy to rapidly or even completely recover from the Great Recession suggests that this was not, in fact, a choice, that the neoliberal growth regime fueled by rising household debt is exhausted, and that the prospects for the US economy are bleak given the damage done by supply-side economics to the process of demand formation (see Cynamon and Fazzari).

Rentier’s wealth is destroyed because the financial liabilities of debtor households are the financial assets of creditor households. Default on debts therefore forces creditors to write down or write off some part of the value of their total financial wealth.
What is to be done?

4 Act III – The neoliberal inheritance, or, what is to be done?

4.1 Reform to the rescue?

On the face of it, the problems of neoliberal capitalism are easy to fix. During the post-war Golden Age (1948-73), a strong labor movement enforced a “value sharing” norm of distributive justice designed to maintain workers’ share of national income, as a result of which there was no real wage-productivity disconnect. Neoliberalism, of course, denuded the labor movement as part of its supply-side strategy of zapping labor. But if a strong labor movement is capable of avoiding the real wage-productivity disconnect that is the Achilles heel of neoliberalism, then surely all that is required to reinvigorate capitalism is to reinvigorate the labor movement? Workers already have the incentive to increase real wages at faster pace, since wages are the primary source of income for most households. And since this would ensure that real wages keep pace with productivity growth, the burgeoning inequality that has characterized the past three decades (and the accompanying weaknesses that it creates in the demand-formation process) would be avoided. All that workers need (and currently lack) is the means to achieve this end.

There are certainly ways of working towards this objective. Much of the pressure on workers that was created by policy during the 1980s involved changes in labor law that made unionization more difficult and de-unionization easier (Block et al. 1996). In principle, these changes could be reversed. At the same time, more attention could be paid to the institutional structure of global economic integration, so that it is more considerate of the welfare of workers. For example, an international commitment to common labor standards would
avoid competition in labor standards resulting in a “race to the bottom” between political jurisdictions, and instead re-direct the focus of globalization towards international cost competition based on productivity enhancing technical change (rather than labor rights denuding institutional change (Palley 2004)). Finally, given that the organizational “heartland” of trade unions has traditionally been manufacturing and processing industries, macroeconomic policy could do a better job of avoiding policies that inadvertently result in premature deindustrialization. For example, high interest rate regimes that systematically over-value the US Dollar may benefit Wall Street financiers selling financial services to the world’s rentier class, but they have, in the past, created a structural source of uncompetitiveness for US manufacturers that has resulted in the permanent loss of manufacturing jobs (Palley 2003).

This having been said, the policies described above are easier to contemplate than to implement. For example, it has long been understood that some of the deindustrialization observed in the US is part of a pattern of structural change common to all advanced capitalist economies (the so-called “maturity effect” – see Rowthorn and Wells (1987)). Moreover, when even regional economic cooperation is under threat (as evidenced by the effects of the UK’s Brexit vote on the European Union), it is far from clear that the degree of international cooperation required for the establishment of common labor standards can be achieved. Finally, domestic US politics constitute a significant obstacle to the policy agenda contemplated above. Consider, for example, the formidable recent Congressional opposition to the Employee Free Choice Act (2009) that would have made it easier to join, form, or assist trade unions.

If the ultimate causes of neoliberalism’s malaise are beyond policy’s reach, is it nevertheless possible to redress their symptoms and thus right the ship of US capitalism? For example, consider a redistributive fiscal policy that sought to raise tax rates on corporate profits, capital gains, and/or high incomes, closed the loopholes that allow substantial amounts of non-wage income to be hidden offshore, and simultaneously cut taxes on the wage incomes
of the bottom 80% of the income distribution while expanding social provision (especially health care and tuition relief for higher education). This would reduce inequality and so diminish the debt-dependence of household consumption spending, thereby restoring a robust and financially sustainable demand-formation process. Once again, however, we must contemplate the serious domestic political opposition that such an agenda would encounter, given that even a return to something resembling the Reagan-era tax code would now likely be attacked from the Right as “irresponsible extremism”. Raising any tax rate has been made difficult to so much as even contemplate given the extent to which the so-called Taxpayer Protection Pledge drafted by the Americans for Tax Reform lobby group holds sway among the ranks of Congressional Republicans.

4.2 Closing time in the gardens of the west: is reform impossible?\footnote{The title of this sub-section is borrowed from \cite{Cornwall1977}.}

Must we therefore conclude that American capitalism is beyond help? As extreme as this position may seem, it cannot be ruled out altogether. According to \cite{Hobsbawm1994}, the Golden Age was part of a “short twentieth century” from 1914-91. This period witnessed a transitory and remarkable confluence of: a strong labor movement; the legacy (post-1945) of suffering from two world wars and the Great Depression; and perhaps most importantly of all, the actual existence of an alternative (Soviet) mode of production that appeared to offer a viable alternative to capitalism itself. Under these circumstances, wealth – the natural center of power in capitalism – was inclined to “concede and rule” in an effort to maintain its place in society. This was the environment in which acceptance of trade unions, social welfare legislation, and redistributive taxation were deemed acceptable. But the short twentieth century is now over. Capitalism is the only game in town and the need for wealth to concede and rule by acquiescing to a Keynesian/welfarist state has disappeared – so that in the
immortal words of Margaret Thatcher, “there is no alternative” to neoliberalism. Instead, the gloves are off: “proper” (nineteenth century) capitalism continues to assert itself even as neoliberalism continues to founder in the wake of the Great Recession. This is undoubtedly a bleak vision, and whether it is realistic or fatalistic has yet to be determined. But it certainly suggests that the possibility of an exhausted but nevertheless (permanently?) institutionally entrenched neoliberalism is plausible, or at least that avoiding such an outcome is far from simple and straightforward.\footnote{For extensive discussion of neoliberalism’s entrenchment – institutional and otherwise – see Cahill (2014).}

5 Conclusions

The advent of neoliberalism in the 1980s has, over the course of the past four decades, forced the US economy play out a three act tragedy. We are still in the midst of act three, and there is no obvious (or easy) end to the performance in sight. On one hand, the necessary response to the apparent exhaustion of neoliberalism that was signaled by the 2007-09 financial crisis and Great Recession is straightforward. The basic need is to redress the structural change that has hollowed out the American middle class, or at least address the symptoms of this phenomenon through taxes and transfers. On the other hand, the likelihood is remote of our witnessing even this (seemingly) modest “reformist” agenda if the “short twentieth century” interpretation of the “Golden Age” as a historical fluke is correct. Do we, then, stand on the brink of closing time in the gardens of the west (Cornwall 1977)? At the time of writing, the hope that we do not stems largely from the considerable uncertainty that accompanies the crisis of any stage of capitalism (see, especially, Gordon et al. (1982)). The past need not be a reliable (logical or statistical) guide to the future – at least in so far as it allows us to predict without doubt the sequence of events that will unfold without fear of being systematically wrong. On this view, hope can always be found – and should be sought – in
the fact that the future has yet to be made!

References


