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November 2018
Working Paper 16/2018
Department of Economics
The New School for Social Research

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November 1, 2018

Abstract

In the early-mid 1990s, Social Structure of Accumulation (SSA) theorists identified the solidification of a neoliberal SSA that included a capital-citizen accord based on "managing the discontent of the losers". This created social stability by reconciling working households to material hardships emanating form the neoliberal labour market by means of either coercion or non-economic distraction. This paper argues that there was, in fact, a fundamentally material basis to the neoliberal capital-citizen accord, including the ability of households to accumulate debt in order to limit the growth of consumption inequality in the face of burgeoning income inequality. The material basis of the capital-citizen accord broke down during the financial crisis of 2007-09, destabilizing the accord itself. The result is that an SSA that has resisted top-down reform is now threatened by bottom-up "reform" in the shape of rising populism. The outcomes of this process are highly uncertain – a key characteristic of the periods of *inter regnum* that separate successful SSAs.

JEL codes: E21, B51, B52, P16
Keywords: Social structure of accumulation, capital-citizen accord, household debt, consumption inequality, populism

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1 Introduction

According to Social Structure of Accumulation (SSA) theory, capitalism evolves through distinct stages. During each stage, the economy's income-generating mechanism is embedded in qualitatively different sets of institutions (norms, conventions, and formal laws) that help "make capitalism work" by reducing conflict and uncertainty and so creating a tranquil environment conducive to accumulation and growth. Among the complex of institutions that make up the archetypal SSA is a "capital-citizen accord": a set of norms and conventions that create social cohesion by ameliorating potential conflict between capital (which is organized around a command structure based on ownership and managerial control) and the citizenry, who expect to be involved in self-governance through mechanisms of participatory democracy.[1]

In the early-mid 1990s, Social Structure of Accumulation (SSA) theorists began to identify the solidification of a neoliberal SSA, including a new capital-citizen accord that created social cohesion by "managing the discontent of the losers". This involved reconciling the low wage growth, re-assertion of capitalist control of the workplace, and heightened employment insecurity visited on the majority of the working population by neoliberal labor markets with continued active consent for capitalism (and hence social stability), either by means

[1]The concept of a capital-citizen accord so-defined recalls the notion of a "double movement" due to Polanyi (1944) (on which see also Block (2008)). The double movement suggests that capitalism as we observe it results from the interaction of two movements, one devoted to expanding the scope and influence of unregulated markets, the second devoted to insulating social life from the encroachment of markets. The capital-citizen accord can be understood as a broad expression of this double movement that, at any point in time, codifies a particular reconciliation of core capitalist tenets with social needs and/or objectives that are unrelated to (or even in conflict with) these tenets and that, in its particularity, reflects the then-extant balance of power between the movements. This interpretation is consistent with the claim of Block (2008, p.5) that "the double movement is about the normal politics of market societies with democratic governance, where adherents of both *laissez-faire* and the protective counter movement are able to press their case in the political arena". The interpretation seems apt, moreover, given that Polanyi intended the double movement to address what he perceived as the narrowness of traditional Marxian class analysis focused exclusively on conflict between workers and firms at the point of production (Block and Somers, 1984, p.5). The capital-citizen accord, and by extension SSA theory, can therefore be thought of as extending Marxian analysis in the spirit of Polanyi.

of coercion or non-economic distraction. The latter involved the escalation of social politics designed to re-focus attention away from the economy and towards social issues (such as nationalism, gun ownership, and religious, ethnic, and racial identity).

This paper argues, however, that there was always a fundamentally *material* basis to the neoliberal capital-citizen accord, central to which was the ability of households to accumulate debt in order to limit the growth of consumption inequality in the face of burgeoning income inequality. This debt accumulation offset broke down in the financial crisis of 2007-09, exposing a large swathe of lower- and middle-income households to the consequences (for their ability to consume) of decades of income stagnation. One result was the exhaustion of the neoliberal growth regime, that depended on household debt accumulation to generate sufficient aggregate demand for final output. A second was the *destabilization of the capital-citizen accord*. Thus although neoliberalism appears to be institutionally entrenched, the destabilization of the capital-citizen accord means that this entrenchment is incomplete. The upshot is that an SSA that has resisted top-down reform (from policy makers and academics) is now threatened by bottom-up "reform" in the shape of rising populism. The outcomes of this process are highly uncertain – a recognizable characteristic of the periods of *inter regnum* that separate successful SSAs.

This is by no means the first paper to suggest that the recent rise of populism has economic roots. For example, Komlos (2018) identifies a three-decade long process of (*inter alia*) stagnating wages, downward social mobility, and rising hopelessness as key factors behind the rise of "Trumpism".[2] A key contribution of the approach taken in this paper, however, is its capacity to address the question: "why now?". The deindustrialization, income stagnation, and economic insecurity emphasized by Komlos (2018) and others are not new or even particularly recent phenomenon, dating as they do to the 1970s and '80s.

[2]See also several of the contributions to issues 78 and 79 of the *Real-World Economics Review*, on "Trumponomics: Causes and Consequences", for emphasis on similar themes.

The denudation of the capacity to address them using unsustainable offsets such as debt accumulation is, however, quite recent, dating back only to the Great Recession. In short, the hypothesis advanced in this paper is that the salve of debt accumulation has now been removed from the (long-standing) open wound of income stagnation and economic insecurity created by neoliberalism, resulting in a sudden and acute onset of economic pain.

The remainder of the paper is organized as follows. Section 2 describes conventional accounts of the neoliberal SSA and, in particular, its capital-citizen accord. Section 3 then outlines a re-thinking of the core attributes of the neoliberal capital-citizen accord designed to bring to the fore its material basis. Section 4 discusses the contemporary crisis of this pillar of the neoliberal SSA. Finally section 5 concludes, and draws to attention some possible responses to the current socio-economic climate.

2 The neoliberal SSA

Following a characteristic "exploration phase" during the 1980s,[3] the emergence of a new, neoliberal SSA was identified by various scholars during the early-mid 1990s, during the early stages of what can now be identified as the neoliberal boom (1990-2007) (see especially Houston (1992) and Lippit (1997)).[4] According to the core/periphery model of SSAs (Kotz, 1994, pp.65-7), the onset of a long boom requires only that the *core* institutions of an SSA be in place. These core institutions are sufficient, by themselves, to reduce conflict and uncertainty to such an extent that the pace accumulation can increase.[5] An implicit theme

[3]For overviews of SSA theory and its essential features, see, for example, Gordon et al. (1982), Kotz et al. (1994), and McDonough et al. (2010).

[4]Lippit (2003, 2006) embellishes the description of the neoliberal SSA found in his earlier work.

[5]As the upswing gathers momentum, the core institutions of the SSA are solidified and its *peripheral* institutions are developed. Hence the emergence of what we observe *ex post* as a fully-fledged SSA takes place over the course of the long boom it promotes, not prior to this upturn. Of course, neither the core nor the peripheral institutions of the SSA are entirely unchanging over the course of the boom but can, instead, evolve during the life cycle of the SSA. This is because although SSAs diminish conflict, they do not entirely abolish it – some conflict remains, and this can be expected to re-shape institutional features of an SSA even during the SSA's life cycle.

in the literature identifying the emergence of the neoliberal SSA is that its core institutions – the central "pillar" of the SSA, to use the nomenclature of Bowles et al. (1990) – differed from those of the preceding Golden Age SSA (1948-73). During the Golden Age, the central pillar of the SSA was the "capital-labor accord" that ameliorated conflict between wage labour and capital at the point of production. Finance capital is central to neoliberalism, however, and as such emphasis on institutions governing the relationship between finance and the real economy – "system of endogenous credit creation" – is found in the literature characterizing the neoliberal SSA. This is exemplified by O'Hara (2002) who, presciently, identifies the system of endogenous credit creation (or what he calls the "financial social structure of accumulation") as both the central pillar *and* the Achilles heel of neoliberalism.

According to SSA theoretic accounts of the last 60-70 years of US economic history, the capital-citizen accord was a peripheral pillar of both the Golden Age and neoliberal SSAs. According to Bowles et al. (1990), the Golden Age capital-citizen accord was a *quid pro quo* – a "concede and rule" path to maintaining capitalist hegemony involving acceptance of capitalism ("command in the midst of democracy") by the populace in return for acceptance of welfarism (a social safety net for the infirm, elderly, and unemployed) running contrary to the core capitalist ethic that "you earn your bread in sweat". The neoliberal capital-citizen accord, meanwhile, could be characterized as an exercise in social control (on behalf of capital – the unequivocal material beneficiary of neoliberalism) that amounted to a process of "managing the discontent of the losers" (Houston, 1992).[6] This process involves somehow reconciling the low wage growth, re-assertion of capitalist control of the workplace, and heightened employment insecurity visited on the majority of the working population resulting from the operation of "flexible" neoliberal labor markets, with acceptance of the (neoliberal capitalist) status quo, thus producing the social stability functional to an orderly process of

[6]Houston (1992, p.67) originally used this term in a somewhat broader context when, in the course of discussing the stability of the neoliberal SSA, he suggested that "a critical element is the successful management of discontent and dissatisfaction of the losers".

accumulation. According to Houston (1992, p.63), managing the discontent of the losers "has been surprisingly successful in maintaining public support for pro-capital economic policies".

In his discussion of the neoliberal capital-citizen accord, Houston (1992, pp.62-4) draws attention to two important features of the process of managing the discontent of the losers. The first is its anti-welfarist bent, in keeping with the view that "government is the problem, not the solution". Indeed, the neoliberal capital-citizen accord is seen as not just anti-welfarist but anti-communitarian, based on a celebration of crude self-interest (that simultaneously excuses neglect of the plight of others) coupled with victimization of the poor and tolerance of racism. Hence Houston (1992, p.63) refers to "a new Anti-Poverty Program ... [that] is against the poor not poverty", and draws attention to attacks on affirmative action and (in what the Trump era reveals as an act of prescience) the emergence of David Duke. In short, the first channel through which managing the discontent of the losers works is *coercion*, perhaps best exemplified by the mass incarceration of young, and especially black, males in the US.[7]

But as Houston (1992, p.63) notes, the neoliberal capital-citizen accord works also through a second channel, based on *non-economic distraction*. This involves escalating social politics so as to re-focus attention away from the economy and towards issues such as gun ownership, nationalism, religion, and racial and/or ethnic identity.[8] Characterized in

[7]According to the World Prison Brief published by the Institute for Criminal Policy Research (www.prisonstudies.org), the rate of incarceration in the US is among the highest in the world: 655 inmates per 100,000 residents in 2016, as compared with a world average of 172 inmates per 100,000 residents, and 80-140 inmates per 100,000 residents in large European countries and Canada. This high rate of incarceration disproportionately affects back males. According to Pettit and Western (2004), among those born between 1965 and 1969, 20 percent of black men had served time in prison by their early thirties as compared with just 3 percent of white men, the rate of incarceration of black men in the study rising to 30 percent of those without college education and almost 60 percent of those who failed to complete high school. There are few reasons to believe this bias in incarceration rates will change, with private prison operators now partnering with US Immigration and Customs Enforcement (ICE) to expand the for-profit "carceral market" by providing immigrant detention facilities, and successfully influencing the likelihood that members of Congress will co-sponsor harsher immigration policy (Collingwood et al., 2018).

[8]As noted by Kotz (2015, chpt.4), neoliberalism should not be associated exclusively with the political right: it has survived and prospered under governing parties of (ostensibly) different political hues. It will be recognized in this connection that the turn towards emphasis on social issues referred to above has been a

some quarters as "weapons of mass distraction", these issues contribute to a triumph of appearance over (material) substance, or at least the material substance of the majority of the working population. Given their role as non-pecuniary "offsets" to the harsh material realities of neoliberal labour markets,[9] the mechanism to which they contribute might better be characterized as "less bread and a lot more circus".

3 Rethinking the neoliberal capital-citizen accord

The main hypothesis advanced in this paper is that "less bread and a lot more circus" is too narrow a reading of the neoliberal capital-citizen accord, and that managing the discontent of the losers during the neoliberal boom had a fundamentally *material* basis. This material basis had two components: the ability of households to accumulate debt to limit the growth of *consumption inequality* despite burgeoning income inequality; and "covert" expansion of the welfare state designed to cushion the impact of, and thereby subsidize the corporate pursuit of, neoliberal labour markets. In this section, we will investigate each of these material components of the neoliberal capital-citizen accord in turn.

feature of mainstream politics across the political spectrum over the past thirty years. Hence throughout this period, heterodox economists were wont to emphasize problematic features of neoliberal capitalism, including sudden and precipitous episodes of deindustrialization, the associated hollowing out of the middle class, and the transformation of trade – both national and international – from a recognizably economic process based on competition between firms, to competition between jurisdictions to attract footloose corporations by eviscerating labour and environmental standards and granting tax concessions. Traditionally left-wing political parties nevertheless contrived to largely ignore these developments for the best part of three decades. They have now been seized upon by right-wing populists and hitched to a toxic agenda of explicit racism and xenophobia.

None of this is to say that issues such as gun ownership or racial identity are not important issues in and of themselves. The point is that emphasis on such issues coincident with simultaneous failure to admit and address pressing economic problems afflicting the majority of working households has been a feature of public discussion across the political spectrum during the neoliberal era.

[9] This role highlights the essential complementarity of institutions, or "logic of the whole", that is central to the functioning of any successful SSA. See, for example, Glyn et al. (1990).

3.1 Rethinking the neoliberal capital-citizen accord: limiting consumption inequality

A well-established theme in heterodox macroeconomics is that household debt accumulation enabled spending growth to exceed income growth during the neoliberal boom (Palley, 2002; Cynamon and Fazzari, 2008; Brown, 2008; Barba and Pivetti, 2009). The focus in this literature is on the contribution of these developments to demand-formation and hence economic growth which (along Keynesian lines) might otherwise have been expected to atrophy as high-spending, less affluent households lost ground to lower-spending, more affluent households as a result of the relentless redistribution of income. The focus here, however, is on the contribution of these same developments to household consumption spending *per se* – and the concomitant capacity of households to shore up the growth of their consumption spending in the face of stagnant real wage income by borrowing and accumulating debt.

A substantial empirical literature exists that, by studying changes in the variance of (log) household income and consumption spending, documents the more substantial increase in the former relative to the latter from the mid-1980s to the late-2000s (Krueger and Perri, 2006; Attanasio et al., 2007; Heathcote et al., 2010; Attanasio and Pistaferri, 2014; Aguiar and Bils, 2015). According to the summary in Attanasio and Pistaferri (2016, pp.11-15), this literature finds that while the variance of log income increased by 20–27 points, the variance of log consumption increased by only 6–18 points. Two features of this literature are notable, however. First, it is framed by the mainstream neoclassical life-cycle and permanent income hypotheses (LCH/PIH), that describe household consumption decisions as the result of a process of dynamic optimization designed to minimize fluctuations in the ratio of consumption to permanent income ("consumption smoothing"). Second, successive studies claim to find ever *less* difference between changes in income inequality and changes in consumption inequality over the period analyzed – which roughly corresponds to what has been identified in this paper as the neoliberal boom.

These two features of the literature are not unrelated. Hence the trend towards finding ever-more growth of consumption inequality accompanying the observed growth of income inequality is ostensibly a result of correcting measurement error (Attanasio and Pistaferri, 2016, p.14). According to Attanasio and Pistaferri (2016):

> The narrative [in the consumption inequality literature] has evolved very sharply from arguing that trends in consumption inequality are quite different from those of income inequality to concluding that they track each other closely. This change in findings has been shaped in substantial part by the adoption of strategies aimed at dealing with measurement problems in consumption data, *as well as by some reinterpretation of the underlying economic forces.* (Attanasio and Pistaferri, 2016, p.4: emphasis added)

The final claim in the quotation above is important because it points to a potential ulterior motive for recent developments in the consumption inequality literature, related to its being framed by neoclassical consumption theory. Neoclassical authors are now increasingly (and belatedly) convinced that increases in income inequality over the last three decades are structural rather than transitory (Attanasio and Pistaferri, 2016, pp.11, 14). This is significant because the LCH/PIH requires that a *permanent* increase in income inequality be accompanied by a similar increase in consumption inequality as a result of households' utility maximizing behaviour.[10] This is because rational (risk-averse) households are understood to maximize utility by smoothing consumption expenditures as a fraction of their

[10] This desire to "see what's in the theory" is also reflected in mainstream interpretation of the evidence on consumption inequality itself. Hence according to Attanasio and Pistaferri (2016), the fact that more recent studies (Attanasio et al., 2007; Heathcote et al., 2010; Attanasio and Pistaferri, 2014; Aguiar and Bils, 2015) suggest a 20-27 point increase in income inequality has been accompanied by a 10-18 point increase in consumption inequality since the 1980s reveals that the changes in consumption and income inequality are "about the same". But note that an increase in 27 points (at the top end of the first range) is almost three times as large as the increase in 10 points (at the bottom end of the second range). Meanwhile, Krueger and Perri (2006) – whose study has allegedly been transcended by the more recent studies just cited – reported a 22 point increase in income inequality accompanied by a 6 point increase in consumption in equality, the former being almost four times as large as the latter. In other words, one plausible reading of the findings of more recent studies is that the increase in income inequality relative to consumption inequality since the 1980s has been revised downwards, but remains large and has certainly not disappeared.

permanent income by (for example) using credit to finance consumption spending in the event of transitory reductions in income. Consumption smoothing, in turn, renders the ratio of consumption to *actual* income volatile, since actual income has both permanent and transitory components.[11] At the same time, households suffering from the stagnation of their *permanent* income – an event to which consumption smoothing is not an appropriate response since such stagnation will not, by definition, disappear in future – should allow their consumption spending to stagnate, so maintaining the ratio of consumption to permanent income. This means that while transitory increases in income inequality should leave consumption inequality unchanged, permanent increases in income inequality should result in increases in consumption inequality of similar size.

From the perspective adopted here, the mainstream literature is correct to (finally and belatedly) acknowledge that increases in income inequality since the 1980s have been structural and permanent, but quite wrong about the nature of the consumption response.[12] Households are not omniscient intertemporal optimizers smoothing consumption over long (sometimes infinite) time horizons, but instead suffer deficient foresight as a result of fundamental uncertainty, and have increasingly accessed credit markets as household and financial sector borrowing and lending norms have changed, with the forecasts of future outcomes required to validate their balance sheet postures based as much on hope as (rational) expectation.[13] In other words, households have been "financialized" such that household financial

[11] To see this, note that if $Y = Y_p + \epsilon$, where Y denotes current income, Y_p is permanent income, and $\epsilon \sim (0, {\sigma_\epsilon}^2)$ is transitory income, stabilizing the ratio of consumption (C) to permanent income, C/Y_p, will mean that the ratio of consumption to actual income $C/Y = C/(Y_p + \epsilon)$ will, for any given level of permanent income, reflect the volatility of transitory income.

[12] The mainstream is also wrong to conceive capitalism as having a single, time-invariant structure. Successive studies in the consumption inequality literature add more available data to what is conceived as the same, unvarying data-generating process. The position taken here is that the Great Recession represented a crisis in the workings of the neoliberal growth regime, marking the exhaustion of this growth regime – of which the subsequent "recovery" (that has provoked discussion of secular stagnation even among mainstream macroeconomists) is but one symptom (Cynamon and Fazzari, 2016). A second symptom, that will be discussed in detail below, is the end of the capacity of working- and middle-class households to use debt as a supplement to income in order to insulate consumption from trend increases in income inequality, and so forestall the onset of increasing consumption inequality.

[13] For recent non-neoclassical theories of consumption behaviour (and their macroeconomic consequences)

posturing (and re-posturing) has come to resemble the behaviour originally ascribed to the corporate sector in the financial instability hypothesis of Minsky (1986).

The data support this view. The solid lines in Figure 1 illustrate the ratio of consumption expenditures to current income – the consumption rate – for both the top 5% and bottom 95% of the US household income distribution 1989-2012.[14] What Figure 1 shows is that even modest disaggregation seriously questions the notion that aggregate consumption can be satisfactorily modelled in terms of a single representative household engaged in consumption smoothing to maximize lifetime utility. The top 5% of the income distribution appear to act as consumption smoothers, their consumption rate fluctuating in the manner predicted by the LCH/PIH and, in particular, rising sharply during business cycle downturns (such as 2000-2001) and falling substantially during business cycle booms (such as 2001-2007).[15] The behaviour of the consumption rate of the bottom 95%, however, is most notable for its continuous rise during the period of the neoliberal boom (coincident with the rising share of aggregate consumption as a proportion of GDP in the US economy). This is consistent with the notion that households lacking the near-omniscient foresight assumed by neoclassical consumption theory (not to mention the resources associated with the upper-echelons of the income distribution) were engaging in an (ultimately unsustainable) effort to offset the negative consequences for their consumption growth of the structural stagnation of their real incomes, the latter a product of the neoliberal regime of accumulation, by going ever deeper into debt. Indeed, according to Figure 1, during the neoliberal boom they succeeded in this ambition. In other words, facilitated by the changed relationship between households and

consistent with this vision, see, for example, Dutt (2005, 2006); Cynamon and Fazzari (2008); Kim et al. (2014); Kapeller and Schütz (2015) and Setterfield and Kim (2016).

[14]Figure 1 also shows the ratio of outlays to current income – the outlay rate – where outlays include not just consumption expenditures but also transfers payments, such as interest payments on debt.

[15]Recall that, according to the LCH/PIH, the ratio of consumption to actual income $C/(Y_p + \epsilon)$ will (given the level of permanent income) reflect the volatility of transitory income. Hence associated $\epsilon > 0$ with a business cycle boom and $\epsilon < 0$ with a recession, we would expect to see $C/(Y_p + \epsilon)$ fall/rise during a boom/recession. This pattern is observable for the top 5% in Figure 1, but not for the bottom 95%.

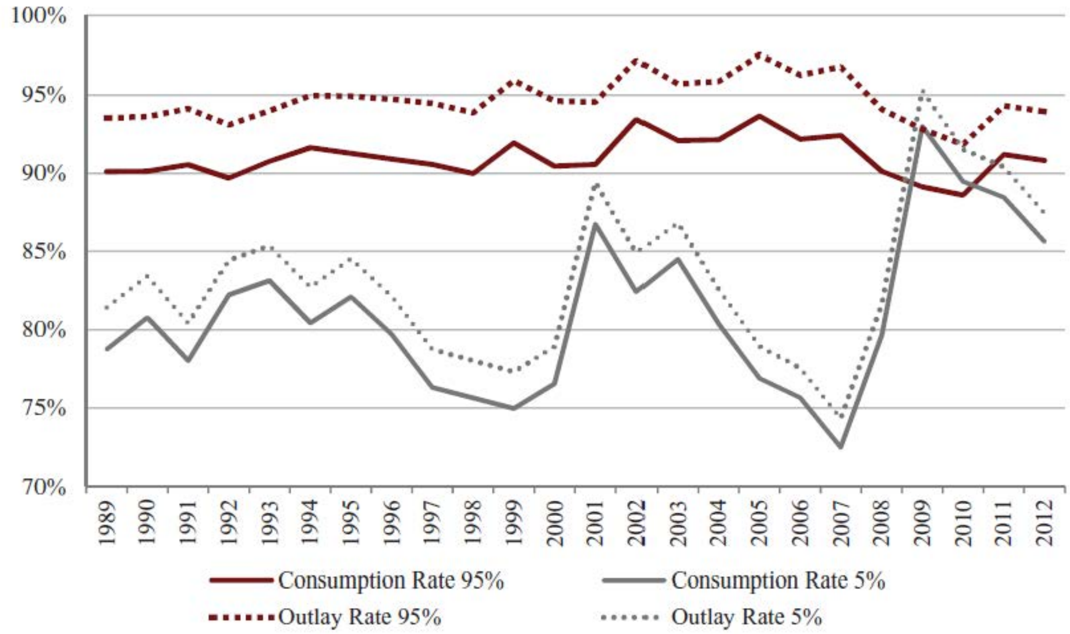

Figure 1: Consumption and Outlay Rates in the US, 1989-2012. *Source*: Cynamon and Fazzari (2016, Fig.3, p.383).

credit markets during this era, final consumption outcomes for working- and middle-class American households were insulated from the underlying trend towards increasing income inequality. The result was an important contribution to the maintenance of social cohesion during this period, as the worst ravages of neoliberalism were – in terms of their impact on final consumption outcomes – held at bay.

3.2 Rethinking the neoliberal capital-citizen accord: expansion of the welfare state

The theme of this sub-section may seem surprising given the close association between neoliberalism and the project of "rolling back the frontiers of the welfare state". But recent evidence suggests the welfare state expanded during the neoliberal boom, and in a manner that contributed to the material basis of the neoliberal capital-citizen accord.

Until recently, the ratio of workers' net social wage (NSW) to GDP was thought to have been trendless around an average value of zero throughout the post-war era (Shaikh and Tonak, 2002). Since workers' NSW is defined as the transfer income they receive from public expenditures less what they pay in taxes, this suggests that working households "pay for their own welfare" or, in other words, that the US welfare state is not fundamentally redistributive. According to Moos (2017), however, there has been a marked upward trend in the ratio of workers' NSW to GDP since 2000, a trend that is clearly evident prior to the 2007 onset of the Great Recession during which, as might be expected, there was a counter-cyclical peak in the value of the NSW akin to that observed during earlier post-war recessions. Indeed, when wage income is adjusted to exclude top wages and salaries (on the basis that these are more closely aligned to residual earnings than wage income proper),[16] the data reveal peak-to-peak increases in the NSW to GDP ratio over consecutive business cycles since 1990, suggesting that the upward trend in the NSW to GDP ratio began earlier than the new millennium and characterizes the entire neoliberal boom (Moos, 2017, Figure 14, p.23).

The significance of these observations in the current context stems, in the first instance, from the fact that the largest component of the NSW is income support, and that income support trends steadily upward 1990-2007, from about 9.5% of GDP to 12.5% of GDP (Moos, 2017, pp.6-11). This is partly explained by forms of income support received by seniors that can be ascribed to demographic forces (specifically, the aging of the US population). But income support for low-income households – in the form of the Supplemental Nutrition Assistance Program (SNAP – formerly Food Stamps), refundable tax credits (including the Earned Income Tax Credit), and Medicaid – also trends steadily upwards between 1990 and 2007, from 1.5% of GDP to 3.5%. Moreover, while all of these programs predate neoliberalism, they were *enhanced* during the neoliberal era. Hence the most rapid increase in

[16] See, for example, Mohun (2006).

income support occurred 1990-95, following the expansion of refundable tax credits by the Clinton administration, while part of the rapid growth of Medicaid spending since 1990 is attributable to the creation of the Children's Health Insurance Program (CHIP) in 1997 (Moos, 2017, p10).

What explains these developments, given the fabled attachment of neoliberalism to the project of "rolling back the frontiers of the welfare state"? Moos (2017, pp.22-8) argues that part of the explanation for the developments outlined above is that the NSW has been increased as part of a deliberate effort on the part of the state to reduce the impact of neoliberal labour markets on working households. In other words, rather than "rolling back the frontiers of the welfare state", a deliberate attempt has been made to provide a public subsidy to the neoliberal corporate project of denuding the conditions of employment, by ameliorating its impact on working households. In terms of the argument advanced in this paper, the state has sought to assist the neoliberalization of the labour market by preventing the resultant growth in income inequality from creating an equivalent increase in consumption inequality. In this way – and complementary to the growth of household borrowing discussed in the previous sub-section – it has expanded the welfare state in a manner that contributed to the material basis of the neoliberal capital-citizen accord and the social cohesion associated with this accord.

3.3 Race and the material basis of the neoliberal capital-citizen accord

As mentioned earlier, one of the mechanisms for managing the discontent of the losers first described by Houston (1992) was coercion. As the example of the disproportionately high incarceration rate among young black men illustrates, it is impossible to properly discuss this mechanism without referring to the theme of race. It transpires that the theme of race is also important in connection with both aspects of the material basis of the capital-citizen accord described above. Consider first borrowing by less-affluent households. It is well known that much of this borrowing took the form of mortgages as, aided and abetted by cash-out re-financing mortgage products, households exploited a booming housing market by extracting equity from their homes to finance consumption spending (Cynamon and Fazzari, 2008; Mian and Sufi, 2011). This process did not benefit all households, of course, but was instead confined to homeowners with housing equity. Such households are predominantly *white*. According to the US Census Bureau, home ownership rates for white householders exceed 70%, while only about 40-45% of black or Hispanic households own their own home.[17] Meanwhile, the housing equity of the median white household rose from \$51,000 to \$71,500 1989-2007, while remaining constant at 0 for both black and Hispanic households (Mishel et al., 2012, p.390). Clearly, white households were the unequivocal beneficiaries of the neoliberal cash-out re-financing mortgage boom.

Meanwhile – and perhaps surprisingly given the political rhetoric that surrounds discussion of the issue, coupled with the fact that black and Hispanic populations suffer higher rates of poverty – white households are frequently the biggest beneficiaries of the welfare state. According to a recent analysis of Census Bureau data (Shapiro et al., 2017), half of all working-age adults without college degrees lifted out of poverty in 2014 were white, while of those who received public assistance, 44% of those who were white were successfully lifted out of poverty, as compared to about 35% of all other racial and ethnic groups.

In short, just as the coercive aspect of the neoliberal capital-citizen accord was racialized, so, too, was its material basis – the latter aspect working mainly to the advantage of white households. As will become clear, this has had an important effect on the social and political reaction to the *atrophy* of the neoliberal capital-citizen accord since the Great Recession, which is the topic of the next section.

[17] See www.census.gov/housing/hvs.

4 Contemporary crisis in the neoliberal capital-citizen accord?

The onset of the 2007-09 financial crisis and Great Recession fractured the material basis of the capital-citizen accord. In particular, it put an end to the capacity of less affluent households to borrow in order to protect consumption spending from the pernicious effects of wage stagnation, which phenomenon has been part-and-parcel of the general trend towards increasing income inequality in neoliberal capitalism.

To see this, we begin by referring again to Figure 1. Having increased steadily since the beginning of the neoliberal boom, Figure 1 shows since the start of the Great Recession, the consumption-income ratio of the bottom 95% of households has experienced steady decline. First note that this cannot be explained by a reversal of the trend towards greater income inequality (the underlying cause of the rise in the consumption-income ratio prior to 2007). In other words, the need for debt-financing as an "offset" to stagnant real income, in order for less affluent households to maintain the expansion of their consumption spending, has not been eliminated. On the contrary, the trends in income inequality observed before the onset of the Great Recession have continued apace since its official end. Hence the inexorable rise of the income share of the top 5% of households, which was briefly checked by the Great Recession itself, has re-asserted itself during the subsequent recovery (Cynamon and Fazzari, 2016, pp.375-6). An important driver of household income inequality is changes in the functional distribution of income (Atkinson, 2009; Glyn, 2009), which since the mid-1970s have, themselves, been driven by the well-known real wage – productivity growth disconnect (see, for example Setterfield (2013) among many others). The trend towards a lower wage share of income and coupled with significantly increased "wage" inequality caused by the inclusion of, for example, the salaries of CEOs in official wage share statistics has been unrelenting since the end of the Great Recession. Bureau of Labor Statistics (BLS) data show that the wage share of income fell both during and immediately after the Great Recession, and has remained stagnant ever since.[18] Meanwhile, the ratio of CEO compensation to that of the average American worker, which dropped during the Great Recession, immediately resumed its upward trend thereafter (Mishel and Schieder, 2018).[19]

The trend decline in the consumption-income ratio since 2007 evident in Figure 1 is, instead, explained by the tightening of borrowing constraints and household deleveraging in the wake of the Great Recession. This, in turn, has weakened the capacity of less affluent households to protect consumption from the adverse effects of real income stagnation which has, in turn, undermined one of the two main material components of the neoliberal capital-citizen accord. As evidence for this interpretation, consider first the finding of Amromin et al. (2017), that for any of the various measures of borrowing constraints they consider, "the fraction of households that are borrowing constrained has drastically increased since the onset of the Great Recession and has remained high" (Amromin et al., 2017, p.4). This coincides with the failure of aggregate consumption to recover normally since the end of the Great Recession. Hence:

> In the four cycles prior to the Great Recession, real household demand recovered after seven years to a level that averaged 18% higher than the pre-recession peak. But seven years after the peak of the Great Recession, real household demand is just 2% above its 2006 peak. The household sector is not even close to playing its typical role in generating demand in the aftermath of the Great Recession. Cynamon and Fazzari (2015, pp.10-11)

Meanwhile, as shown in Figure 2, the failure of *aggregate* consumption spending to recover normally since the Great Recession can be explained by a break in the previous trend rate of growth of consumption among the bottom 95% of the income distribution. As can be seen

[18] This claim is based on BLS data for the non-farm business sector. See fred.stlouisfed.org/series/PRS85006173 for a graphical summary of this data.

[19] As noted by the OECD, these developments are not limited to the US. Hence even as unemployment has fallen to pre-crisis levels in the OECD area, "wage growth is still missing in action ... [and] this unprecedented wage stagnation is not evenly distributed across workers. Real incomes of the top 1% of income earners have increased much faster than those of median full-time workers in recent years, reinforcing a long-standing trend" (OECD, 2018, p.2).

from Figure 2, the consumption spending of the top 5% was adversely affected by the Great Recession, but only temporarily. The consumption spending of the bottom 95%, in contrast, has essentially stagnated since the Great Recession – so that the experience of stagnant consumption spending has now been added to the experience of stagnant real income for less affluent American households. In short, their balance sheet and aggregate-demand-generating consequences aside, reductions in household borrowing and indebtedness among less affluent households since the onset of the Great Recession have allowed still-stagnant real incomes to finally "press home" their consequences for consumption spending. The result is that more working- and middle-class households are now more fully exposed to the material pain and distress that can be associated with the neoliberalization of the labour market. The argument here is that by undermining part of the material basis of the neoliberal capital-citizen accord, *the social cohesion associated with the previously successful functioning of this accord has been eroded*. Note that this phenomenon is far more contemporary (dating, as it does, to the onset of the Great Recession) than the "root" economic problems to which the plight of working- and middle-class households can ultimately be traced (deindustrialization, deunionization, pro-corporate globalization, burgeoning income inequality), all of which date back to the end of the post-war Golden Age and the subsequent onset of neoliberalism during the 1970s and'80s.

Moreover, there may yet be a second foot to fall, if a new round of welfare"reform" threatens the second of the two material bases of the neoliberal capital-citizen accord. If the 2017 health care "reform" debate signalled that the affluent are unwilling to pay for other people's health care, the subsequent tax "reform" legislation passed by the Republican Congress suggested that the affluent are unwilling to pay for *any* public provision. If this is, indeed, the case, tax "reform" may yet bequeath welfare "reform", spurred on by a renewed (if spurious) focus on the imperative of deficit reduction in the name of "fiscal responsibility". None of this, it should be emphasized, has yet materialized – and as such, and unlike the

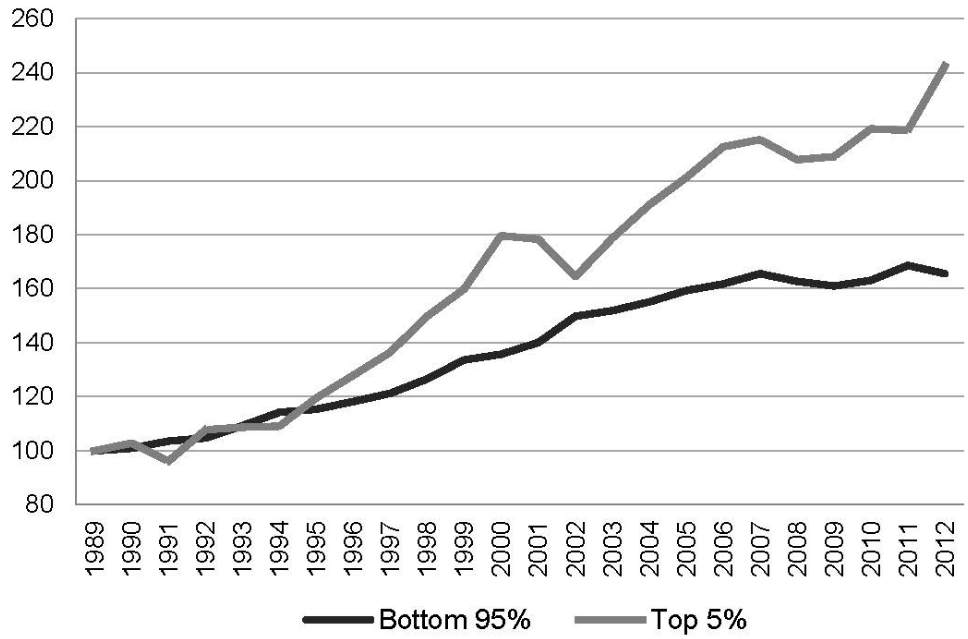

Figure 2: Indices of Real Consumption in the US Economy (1989 = 100), 1989-2012. *Source*: Cynamon and Fazzari (2015, Fig.5, p.14).

demise of household borrowing, it cannot be used to explain recent events associated here with the breakdown of the neoliberal capital-citizen accord. But if welfare "reform" does ensue, it will result in a second squeeze on working- and middle- class standards of living. This would further undermine the material basis of the neoliberal capital-citizen accord and, in the worst case scenario, such a retreat from welfarism at this particular juncture could "dis-embed the market system and recreate conditions that Polanyi (1944) blamed for the rise of fascism in the 1930s" (Palley, 2018, p.33-4).

In sum, with the household debt spigot sputtering (and the welfare subsidy to less affluent households under potential political threat), working- and middle-class households have, since the Great Recession, found themselves confronting head-on the consequences of wage stagnation for their standards of living. As a result, at least one of the material pillars of the neoliberal capital-citizen accord has been fractured, with adverse consequences for the social cohesion that a properly functioning capital-citizen accord creates. This helps explain the timing of the recent *cris de coeur* of working- and middle-class households – indeed, and more specifically, *white* working- and middle-class households – reflected in, for example, the rise of Trumpism, the Brexit vote, and the June 2017 British parliamentary elections.[20] These were not (simply) a three-decades-delayed response to neoliberalism itself.[21] They were, instead, a sharp reaction from those who benefited most from the material basis of the capital-citizen accord during the neoliberal boom, to the altogether more recent atrophy of the inequality-household debt-*social cohesion* nexus that was a hidden but critical material constituent of this accord.

5 Conclusion

Many observers are familiar with the inequality-debt-growth nexus: the idea that burgeoning income inequality caused, in part, by the stagnation of wage income forced working families to accumulate debt in an effort to maintain their pursuit of the American Dream, the result being an unsustainable growth process that crashed a decade ago amid fears of the onset of secular stagnation. The focus in this paper has been on a related phenomenon – the inequality-debt-*social cohesion* nexus.

The analysis draws on the tools of Social Structure of Accumulation (SSA) theory, according to which the capitalist growth process is embedded in complex clusters of socio-economic

[20]Note that the last of these three events was qualitatively different from the first two, in so far as it cannot be associated with support for far-right politics and/or racism and xenophobia. It nevertheless belongs with the first two as an expression of the sort of existential anger and frustration associated here with the fracture of the capital-citizen accord. Such behaviour need not always be coherent. Hence many of the regions of Britain that voted in favor of Brexit effectively voted *against* Brexit in 2017, by reducing to minority government status a party seeking to increase its electoral majority in the House of Commons precisely in order to more easily advance the Brexit agenda.

[21]Note, of course, that the underlying drivers of current working- and middle-class economic distress – deindustrialization, deunionization, pro-corporate globalization, and XX – *began* well before recent political expressions of socio-economic unrest, but have been *gradual and ongoing* processes during the neoliberal era. As such, it would be unwise to rule out the contribution that the ever-larger cumulative effect of these processes may have made to recent events.

institutions. One such cluster is the “capital-citizen accord,” a set of norms and conventions that ameliorate potential conflict between the capitalist structure of the economy – organized on the basis of corporate ownership and control – and the citizenry, who expect to be involved in self-governance through mechanisms of participatory democracy. According to SSA theorists, the capital-citizen accord under neoliberalism has involved “managing the discontent of the losers”, and the basis of this process is non-material: a collection of socio-political processes that have been popularly characterized as “weapons of mass distraction,” but that might better be characterized as “less bread and a lot more circus”.

This paper argues, however, that during the neoliberal boom, there was a well-functioning and fundamentally *material* basis to the capital-citizen accord – most notably, the ability of households to accumulate debt in order to limit the growth of consumption inequality in the face of burgeoning income inequality. In other words, the very same processes (financialization of the household and the resultant boom in household debt accumulation) that offset the adverse effects of inequality on growth also offset the adverse effects of inequality on *social cohesion*, by limiting the impact of inequality on realized standards of living and so limiting social discontent with the project of neoliberalizing the labour market. It was aided and abetted in this role by a surprising second development: a “covert” expansion of the welfare state. It transpires that “a lot more circus” was never entirely responsible for reconciling disempowered, over-worked, and under-paid white working- and middle- class households with the strictures of neoliberal capitalism.[22]

The problem at this juncture is that the debt accumulation offset broke down in the financial crisis of 2007-09. One result of this was the exhaustion of the neoliberal growth regime – hence the fears of secular stagnation that have haunted discussion of the economy

[22]The reader is reminded once again of the fundamentally racialized nature of the neoliberal capital-citizen accord. Even as its mechanisms of coercion were visited primarily on young black men, so the beneficiaries of its material basis were primarily white households, uniquely placed to leverage housing equity into finance for consumption spending, and better able to make use of public income support programs to escape poverty.

for the past 10 years. A second and less widely recognized consequence of the financial crisis was its destabilization of the capital-citizen accord. Although the absence of reform since the Great Recession suggests that neoliberalism is institutionally entrenched, this entrenchment must therefore be considered incomplete. Now that the debt-accumulation spigot has been turned off, working- and middle-class households have been forced to accept the consequences for their realized standards of living of a decade of continued wage stagnation.[23] Worse may be to come if the tax "reforms" of 2017 are followed by a new round of "deficit mania" that renews calls for welfare "reform" on the political right. This threatens to undermine the material support that (predominantly white) low-income households have received through the hidden contemporary expansion of the welfare state. The result of these developments is that a neoliberal economic order that has resisted top-down reform from policy makers and academics is now threatened by bottom-up "reform" in the shape of rising economic populism, especially among the white households who were the primary beneficiaries of the material basis of the capital-citizen accord. Trumpism, Brexit, and (outside the US) the June 2017 British parliamentary elections are all meaningful if qualitatively different reflections of this phenomenon – their qualitative difference serving as a reminder that considerable uncertainty still surrounds the final outcome of the breakdown of the neoliberal capital-citizen accord.

Ultimately, then, we arrive at an explanation for the recent rise of populism, or at least that part of it that is understood to have economic origins. The recent erosion of the capital-citizen accord helps to explain why the Rust Belt and the north of England are only now seen to be centres of hegemony-challenging, socio-economic discontent, despite the fact that their economic ills began more than three decades ago. Finally, it becomes clear that

[23]It is worth noting that Americans are typically regarded as having a high tolerance for inequality because of social mobility. Social mobility in the US appears to be declining, however (Chetty et al., 2017), while at the same time (and perhaps worse still for the degree of "inequality tolerance"), *belief in* social mobility is also declining, especially – and significantly for the hypothesis developed in this paper – among whites (Graham, 2017).

the same policies required to fix inequality and its incipient threat of secular stagnation – including the reinvigoration of trade unionism, redistributive fiscal policy, global labour and environmental standards to re-direct competition arising from international trade towards product and process innovation, and monetary policy that is sensitive to the real economy and not just financial interests – are also required to create social cohesion in a manner that, among other things, de-couples economic outcomes from racism, sexism, and xenophobia and so redresses rather than further indulges the troubling rise of specifically right-wing populism that has thus far dominated responses to the crisis of the neoliberal capital-citizen accord.

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