XV. The Neoliberal Turn

History does not repeat itself, but it does rhyme—oddly.

After the American Civil War, 1870-1914 had been an economic El Dorado, an age of a swift jog or run along the path toward utopia at pace previously unseen in any historical era. For the poor majority, it delivered greatly lessened pressure of necessity and material want. For the rich, it delivered a near-utopia of material abundance: by 1914, life did indeed offer "at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages…" Moreover, civilization's confidence as of 1914 was great. For the well-thinking, any idea that this progressive economic system of rapidly increasing prosperity might break down was "aberrant [and] scandalous". Yet then came World War I, and the failures of economic management after World War I to restore stability, to restore confidence in the system, or to restore rapidly advancing prosperity. And so things fell apart. The center did not hold.

After World War II, 1945-1973 was an economic El Dorado, an age of a swift jog or run along the path toward utopia at pace previously unseen in any historical era —including 1870-1914. For the poor majority, it delivered relief from the pressure of dire necessity, and access to considerable amounts of at least the most basic conveniences of life. For the rich, it delivered a cornucopia of material abundance not just beyond the compass but beyond the wild imaginings of the richest and most powerful monarchs of other ages. Social democracy was delivering. Creative destruction might eliminate your job, but there would be another one as good or better because of full employment. Because of rapid productivity growth your income would certainly be higher than somebody of your accomplishments and position in any previous generation. And if you did not like what your neighborhood was or was becoming, you could buy a car and change your residence to the suburbs without disrupting the other parts of your life.

Moreover, civilization's confidence as of 1973 was great, fears of the ongoing Cold War turning hot notwithstanding. For the well-thinking, any idea that this progressive economic system of rapidly increasing prosperity might break down was once again aberrant and scandalous. In the global north, people in 1973 had between two and four times the material abundance that their predecessors of their parents' age had had a generation before. In the United States, especially, the talk was about how to deal with the end-state seen in Keynes's *Economic Possibilities for Our*

Grandchildren—the civilization of material abundance, in which humanity's problem was not how to produce enough to escape from the kingdom of necessity and have some useful conveniences, but rather "how to use… freedom… [to] live wisely and agreeably and well…"—fifty years before Keynes had predicted it might come to pass. Smokestacks and fog were no longer seen as welcome harbingers of prosperity, but as the nuisance of pollution that needed to be squashed so we could have clean air. It was the time of *The Greening of America*, and of the expansion of human consciousness. It was a time to question the bourgeois virtues of hard, regular work and thrift in pursuit of material abundance, and instead to turn on, tune in, drop out.

And if things did not fall apart, precisely, the center did not hold. There was a sharp neoliberal turn away from the previous order—social democracy—of 1945-1973. By 1979 the cultural and political energy was on the right. Social democracy was broadly seen to have failed, to have overreached itself. A course correction was called for.

Why? In my view, the greatest cause was the extraordinary pace of rising prosperity during the Thirty Glorious Years, which raised the bar that a political-economic order had to surpass in order to generate broad acceptance. People in the global north had come to expect to see incomes relatively equally distributed (for white guys at least), doubling every generation, and with economic uncertainty very low with respect to prices and with respect to employment—except on the upside. And people then for some reason required that growth in their incomes be at least as fast as they had expected and be stable, or else they would seek reform.

Karl Polanyi died in 1964, in Toronto. Had he been more listened-to, he could have warned the well-thinking who discoursed in the years of rapid economic growth about how successful management had brought about the end of bitter ideological struggles. People, he would have—and did say—want their rights respected. While delivering increasing prosperity year-by-year can substitute for respect to a degree, it would only be too a degree. And egalitarian distribution was a sword with at least two edges. People seek to *earn*, or to feel that they have earned, what they receive—not to be given it out of somebody's *grace*, for that is not respectful. Moreover, perhaps the greatest of all violations of your rights are to treat somebody who ought to be ranked lower than you as your equal.

As generations got accustomed to very rapid growth, the amount of increasing prosperity required to quiet the worries and concerns thrown up by market capitalism's creative destruction grew as well. The bar was raised. The late 1970s polities and economies did not clear that bar. And so people looked around, searching for ideas about how to reform.

Say what you like about people from Benito Mussolini to Vladimir Lenin who proposed all kinds of ideas about how to reform after and indeed before WWI, at least they were creative. Very creative. But the things that were displayed in the shop windows in the marketplaces-of-ideas in the global north in the later 1970s were rather shopworn. On the left, there were pleas that what was going on behind the Iron and Bamboo Curtains in Brezhnev's Russia and immediate post-Mao China was in fact glorious, glorious—and successful! On the right, there were pleas that everything had in fact been about to go fine when Hoover was defeated in 1932, and that the entire New Deal and all of social democracy were one big mistake.

But, still, the late 1970s saw the generation of a rough consensus that global-north political-economy needed substantial reform at the very least: that something in the shopwindow needed to be purchased.

One very powerful factor contributing to generation this consensus was that after 1973, in Europe and in America and in Japan, came a very sharp slowdown in the rate of productivity and real income growth. Some of it was a consequence of the decision to shift from an economy that polluted more to an economy that attempted to begin the process of environmental cleanup. Cleanup, however, would take decades to make a real difference in people's lives. Energy diverted away from producing more and into producing cleaner would show up in lower wage increases and profits quickly. Some of it was a consequence of the upward oil price shocks of 1973 and 1979—energy that had been devoted to raising labor productivity was now devoted to figuring out how to produce in a more energy-efficient manner, and how to produce in a flexible manner that could cope with either high or low relative energy prices. Some of it was due to running out of the backlog stock of undeployed useful ideas that had been discovered and partially developed. Especially in Western Europe and in Japan the easy days of post-WWII "catchup" were over. The post-WWII baby boom generation entered the workforce, and making them fully productive proved a difficult task, and the failure to fully accomplish it was one source of drag. But allocating the sources of the post-1973 global-north productivity slowdown among their potential causes is difficult. It remains a mystery, even today. The important thing was that the social-democratic promise of every-increasing prosperity was not kept in the 1970s.

The irritation of markedly slowed economic growth was amplified by inflation.

Not, admittedly, the doubling or septupling inflation of post-WWI. Rather, five to ten percent a year. The productivity slowdown meant that if nominal wages were to keep rising at their previous pace, prices would have to rise faster. The decade starting in 1966 of having, almost every year, a surprise upward shocks to the rate of growth of money prices-on-average convinced businesses and unions, workers and consumers that inflation (a) needed to be paid attention to, and (b) was likely to be the same as or a bit more it had been last year, so you needed (c) to build into your planning the expectation that, over the next year, your and other people's wages and that your and other people's prices would rise by at least as much as and probably more than they had last year.

The oil embargo the Organizatio of Oil Producing Countries (OPEC) imposed against the U.S. and the Netherlands in the aftermath of the 1973 Yom Kippur War deranged the oil market. OPEC woke up to its market power. Its maintenance of high oil prices sent the world economy into a major recession. Moreover, high oil prices pushed the world economy to shift its direction, from focusing on raising labor productivity to focusing on energy conservation. That meant that many people's incomes and jobs disappeared, permanently. That meant that many others' future jobs would fail to appear. And that meant an acceleration of inflation that had already been ongoing before 1973.

The tripling of world oil prices worked its way through the economy like a wave, which then reflected and passed through the economy again and again—not a one-time rise in the price level but a permanent upward ratchet of the inflation rate. The rising rate of inflation from 1965 to 1973 predisposed people to take last year's inflation as a signal of what next year's inflation would be. And no one in a position to make anti-inflation policy cared enough about stopping inflation, given the likely high cost in terms of idled factories and unemployed workers of doing so. Other goals took precedence: solving the energy crisis, or maintaining a high-pressure economy, or making certain that the current recession did not get any worse.

This inflation was an annoyance that governments found it damnably hard to deal with. The only way to offset these expectations was to scare workers and businesses: to make labor demand weak enough that workers would not dare demand wage increases in accord with expected inflation out of the fear that they would lose their jobs, and to make spending in the economy as a whole weak enough that businesses would not dare raise prices in accord with expected inflation either. To hold inflation constant required a weak, low-profit, elevated-unemployment economy.

Five to ten percent inflation per year is not the trillion-fold inflation of Weimar

Germany. And productivity-growth slowdown is not productivity-growth stop. From 1973 to 2016, worker productivity in the global north had grown at an average rate of 1.5% per year. That is a significant drop from the 3% rate sustained between 1938 and 1973. But from a long-term historical perspective, this was still great. 1.5% per year is the same as the productivity growth rate over 1870-1914, that original "economic El Dorado" that economists after 1918 desperately wanted to get back to.

But after expectations had been set so high by the prosperity of 1945-1973, 1.5% didn't look so impressive. Moreover, post-1973 growth has been accompanied by rising inequality. At the top the average pace of real income growth has continued at its 1945-1973 3%/year pace, or even more. For the middle and the working classes of the global north, paying for continued steady growth for the upper-middle class and the explosion of plutocrat wealth means that middle- and working-class inflation-adjusted paychecks have grown at only 0.5%-1.0%/year. Plus there were the effects of inclusion: if you were of the right ethnicity and gender in 1973, whatever satisfaction you got from your position in the pyramid leaked away as Blacks and women got "uppity". And with at least some closing of race, ethnic, and gender income gaps, white male earnings, especially for those of relatively low education, had to on average lag the 0.5%-1.0%/year that was the lower-middle and working-class average.

Inflation creating at least the appearance of great instability in incomes. Oil shocks producing the first noticeable economic recessions since World War II. Sociological turmoil and income stagnation—still, the neoliberal turn accomplished in little more than half a decade in the 1970s was remarkably rapid.

In the United States, the ongoing Vietnam War did not help. President Richard Nixon and Henry Kissinger had blocked the ending of the war in late 1968, promising South Vietnamese President Nguyễn Văn Thiệu that they would get him a better deal and better chance of long-run political survival than Lyndon Johnson's administration was offering. They lied. After an additional 1.5 million Vietnamese and 30,000 American deaths, North Vietnam conquered South Vietnam in mid-1975—and promptly began an ethnic cleansing campaign against Vietnamese of Chinese ancestral descent. Domestic discontent with the war was, for Nixon, a political plus: his strategy had always been one of ramping-up divisions, in the belief that if he could break the country in two the larger half would support him.

Yet even with all of inflation, productivity slowdown, quagmire land war in Asia, Nixon's crimes—compared to what had gone on between the world wars, or even comparing the 1970s to any decade between 1870 and 1914, things were still very good, in terms of the rate of economic growth and the indicia of societal progress. Why, then, did the 1970s see a powerful swing against the social-democratic political-economic order that had managed its successful balancing act since World War II? The U.S. death toll in the Vietnam War was small (the Vietnamese was not). Inflation, was, save for the somewhat-elevated unemployment that turned out to be required to keep it from rising further, a zero-sum redistribution with the gainers matching the losers. The productivity slowdown was a disappointment, but it still left wages growing faster than in any previous era of human history.

Those economists who minimized the downside of inflation should have listened more closely to Karl Polanyi. People seek not just to have the good things, materially, but to pretend that there is a logic to the distribution of the good things to them—that their prosperity has some rational and deserved basis. Inflation—even the moderate inflation of the 1970s—stripped the mask.

There were, in right-wing eyes, more problems with social democracy. Social-democratic governments were simply trying to do too many things. Too much of what they were attempting was technocratically stupid, and bound to be unsuccessful. Too much attempted to repair apparent defects that were not real defects—that were necessary to incentivize good and proper behavior. As Reagan's future chief economist (and my brilliant and charismatic teacher) Martin Feldstein claimed:

> Expansionary policies… adopted in the hope of lowering… unemployment… [produced] inflation…. Retirement benefits were increased without considering the subsequent impact on investment and saving. Regulations were imposed to protect health and safety without evaluating the reduction in productivity…. Unemployment benefits would encourage layoffs…. Welfare programs to help [the] poor… weaken family structures...

We have seen this before. It is that authority and order are of overwhelming importance, and that "permissiveness" is fatal. It is that, again in the words of Churchill's private secretary P.J. Griggs, an economy and polity cannot perpetually live beyond its means on its wits. It is that the market economy has a logic of its own, and does what it does for reasons that are beyond feeble mortal comprehension that need to be respected, or else. It is believing that you can rearrange and govern the market is *hubris*, which will bring *nemesis.*

Yet this was also not completely false. why, in Britain, did social democratic education policy turn out to give children of doctors and lawyers and landowners the right to go to Oxford for free? Why did social democracies that had nationalized the “commanding heights” of their economies use that power not to accelerate technological progress and keep employment high, but rather to prop up increasingly obsolete "sunset" industries? When judged by a technocratic logic of efficiency, all politically popular arrangements will turn out to be lacking to some degree. It is the broadness of the discontent and the rapidity of its reemergence after a decade that, compared to the Great Recession or the COVID-19 plague, does not appear to have been that large a shock—it is that that strikes me as interesting. A tripling of global-north living standards between 1938 and 1973 had not brought about utopia. Growth gets interrupted and slowed. And in less than a decade this was felt to indicate that social democracy needed replacement.

One touchstone is British left-wing historian Eric Hobsbawm. Hobsbawm saw the late-1970s and subsequent discontent with and reaction against the social-democratic order as justified: “There were good grounds for some of the disillusion with state-managed industries and public administration.” He denounced the “rigidities, inefficiencies and economic wastages so often sheltering under Golden Age government policies…” And he declared: “There was considerable scope for applying the neoliberal cleansing-agent to the encrusted hull of many a good ship ‘Mixed Economy’ with beneficial results. Even the British Left was eventually to admit that some of the ruthless shocks imposed on the British economy by Mrs. Thatcher had probably been necessary…”

Hobsbawm was a lifelong communist. To the end of his days, he would continue to stubbornly maintain while drinking tea with his respectful interviewers that the murderous careers of Lenin and Stalin (but perhaps not Mao?) had been worth undertaking because they indeed might, had things turned out differently, have unlocked the gate and opened the road to a true utopia. Yet he, too, eagerly attended the church where he heard and then himself preached: the market giveth, the market taketh away; blessed be the name of the market.

So what was the global north going to purchase in the marketplace of ideas as its reform program? On the left there was very little. Really-existing socialism had proven a bust, yet too much energy on the left was still devoted to explaining away its failures. On the right there were real ideas. Never mind that they seemed to the historically minded to be retreads from before 1930. After all many of the ideas of the New Deal had been retread ideas from the Progressive Era of the 1900s decade. The right wing’s ideas were backed by lots of money. The memory of the Great Depression, and of austerity’s failures in the Great Depression, was old and fading. Once again was heard cries for sound-finance orthodoxy and austerity—even for the gold standard. Once again there was trotted out the standard answer that everything that went wrong was, somehow, an overmighty government's fault. It was, after all, for true believers a metaphysical necessity that it was government intervention that had caused the Great Depression to be so deep and last so long. The market, after all, could not fail: it could only be failed.

Plus the fading memory of the Great Depression led to the fading of the belief, or rather recognition, by the middle class that they as well as the working class need social insurance. In an environment of economic stability and growth, the successful not only prospered materially but could convince themselves that they prospered morally as well for they were the authors of their own prosperity—and government existed merely to unfairly tax them, and then to give what was rightfully theirs to poorer and deviant people who lacked their industry and their moral worth.

From this point, the right-wing critique spread out to sweep up much more than a faltering economy. They also embraced a cultural critique, one squarely aimed at the very advances in racial and gender equality sketched above. Social democracy, conservatives declared in a Polanyian backlash, was flawed because it treated unequals equally. Consider University of Chicago economics professor and Nobel laureate George Stigler, writing in 1962—before the Civil Rights Act, before the Voting Rights Act, before affirmative action—about "The Problem of the Negro." As Stigler put it, there may—or may not—be prejudice at work, but the African-American *deserves* to be poor, to be disliked, and to be treated with disrespect:

> lacks a desire to improve himself… lacks a willingness to discipline himself to this end. The Negro boy… [may be] excluded from many occupations by… prejudice.… But he is excluded from more… by his own inferiority… lacking education, lacking a tenacity of purpose, lacking a willingness to work hard. The Negro as a neighbor… is frequently repelled and avoided by the white man… because the Negro family is, on average, a loose, morally lax, group, and brings with its presence a rapid rise in crime and vandalism. No statutes, no sermons, no demonstrations, will obtain for the Negro the liking and respect that sober virtues commend.

Social democracy set up a benchmark of treating everyone as equals. African-Americans, knowing that American society dishonored the promissory note they had been passed, demonstrated. And those demonstrations "growing in size and insolence", as Stigler characterized them, were a sign of things going wrong. Social democracy was, to Stigler and company, economically inefficient. But it was also in their eyes profoundly unfair.

Geopolitical and geoeconomic instability comes and goes. The memory of the Great Depression was bound to fade. Could social democracy have held itself together had the inflation rate of the 1970s not served as a convenient index of the incompetence of "Keynesian" and social democratic governments, and as a focal point for calls for a return to more "orthodox" policies? Or was the deeper logic of the morality play that Keynesian social democrats had tried to create prosperity out of thin air and so gotten their comeuppance bound to dominate eventually, somehow, someday? That morality-play version did become generally accepted in the corridors of influence and power. Might social democracy have survived, regrouped, and staggered onward? Here again is a place where a great deal of the course of history might, or might not, have evolved differently had a relatively small number of influential groups of people thought different thoughts. But along this branch of the universe's quantum wave function, at least, the world made a neoliberal turn.

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By the late 1970s, there was in the global north a mandate to fight inflation even at the cost of inducing a significant recession. Fed Chair Arthur Burns was reluctant to use that mandate. Jimmy Carter replaced Burns with G. William Miller, Miller likewise balked; he was uninterested in causing (and likely being blamed for) a significant recession. So things stood in 1979.

Then Jimmy Carter found himself disappointed with the state of the economy and of his government. He decided, suddenly to fire five cabinet members, including his Treasury Secretary, Michael Blumenthal.

Carter's aides told him that he couldn't just fire the Treasury Secretary without naming a replacement—it would look like he was running a disorganized White House. But Carter *was* running a disorganized White House. There was no obvious replacement at hand. To placate his aides, and the press, Carter decided to move G. William Miller over from the Fed to the Treasury.

Carter's aides then told him that he couldn't just leave a vacancy as Fed Chair without naming a replacement—it would look like he was running a disorganized white house. But Carter *was* running a disorganized White House. There was no obvious replacement at hand. So Carter grabbed the most senior career Treasury and Federal Reserve official—New York Federal Reserve Bank President Paul

Volcker—and made him Federal Reserve Chair.

As best as I can determine, there was no more than a cursory inquiry into what Volcker's policy preferences might turn out to be.

One thing soon became clear, however: Volcker was ready to use his mandate to bring inflation under control. By raising interest rates high enough and keep them high long enough, he hoped to convince the economy that things were different, and that inflation would stay below 5% per year indefinitely. In 1982 the unemployment rate kissed 11%. The U.S., and the world, for the first time since the Great Depression, experienced an economic downturn for which the word "recession" seems too mild a description.

Many observers would say that the costs of the Volcker disinflation of the early 1980s were worth paying. After 1984, the US boasted an economy with relatively stable prices and—up until 2009—relatively moderate unemployment; on the other hand, without Volcker's push, inflation would have likely continued to slowly creep upward over the 1980s from just under ten to perhaps has high as twenty percent per year. Others, insist there must have been a better way. Perhaps inflation could have been brought under control more cheaply if government, business, and labor had been able to strike a deal to restrain nominal wage growth. Or, perhaps if the Federal Reserve had done a better job of communicating its expectations and targets? Perhaps "gradualism" rather than "shock therapy"?

For those on the right, there is no question that the Volcker disinflation was necessary—indeed, long delayed past its proper time. One of the charges that right-wingers levelled at social democracy was that it led people to expect that life would be easy, that there would be full employment, that jobs would be plentiful. This, in turn, encouraged workers to be insufficiently differential and demand too-high wages, spurring inflation, and keeping profits too low to justify investment. And since it promised to reward with jobs even those who had not pleased previous employers, it undermined public virtue.

The government and Federal Reserve needed to impose discipline by focusing on price stability, the right-wingers insisted, and then let the unemployment rate go wherever it needed to go. Government couldn't be a "nanny state" offering everybody a bottle when they cried. Monetary policy needed to be turned over to strongly anti-inflationary policymakers—as Jimmy Carter had already done, half-wittingly, in turning the Federal Reserve over to Paul Volcker. And if the Fed was strong enough and disciplined enough, conservatives argued, inflation could be stopped with only a small and temporary rise in unemployment. And, stated and unstated, without upending the conservative cultural hierarchies.

But it was not just in the United States. Union wage demands and strikes in Britain —especially public-sector strikes—convinced the center of the electorate that union power needed to be curbed, and that only the Conservatives would have the necessary resolve. Labour governments just were not working. Margaret Thatcher's Tories promised a restoration of order and discipline, and also promised that they would produce full employment, low inflation, and make Britain work again In France, newly-installed socialist President Francois Mitterand turned on a dime and embraced the neoliberal turn to inflation-control and orthodox austerity. Volcker disinflation policies in the US raised unemployment throughout the North Atlantic, putting the project of social democracy in even more of a difficult position, as many social democracies now could not even keep their own commitment to full employment.

Such were the circumstances in which Ronald Reagan and Margaret Thatcher came to power. They would remain at the top of their respective countries' political establishments for much of the 1980s, and their shadows would dominate the thinking of the political right—and the center, and the center-left—in their countries and after for much longer.

And yet the curious thing is that the domestic policies of both Reagan and Thatcher were, judged from any rational perspective, unsuccessful. There was a larger than usual gap between their promises and their accomplishments. They sought to raise employment and wages by removing debilitating regulations. They sought to end inflation by stable money. They sought to boost investment, enterprise, and growth by cutting taxes—especially tax cuts for the rich. And they sought to reduce the size of the government by using their tax cuts to force government spending onto a diet. The world could have been such that these were all, by and large, good ideas that would have advanced general prosperity.

Many politicians and strategists predicted Reagan and Thatcher's policies would be extremely popular and successful. Tax cut would please electorates. They would also substantially weaken opposition to subsequent spending cuts: any proposal to maintain spending would then necessarily include large budget deficits. Moreover, tax cuts would have the added benefit of tilting income distribution in favor of the rich, correcting the excesses of social democracy by reversing its equal treatment of unequals. The tax cuts would ensure that industry was rewarded, and sloth punished. The logics of Stigler et al would be appeased.

Yet the predicted good things did not happen—except for the end of inflation, enforced at heavy cost by Paul Volcker. And except for large tax cuts for the rich that began the process of destabilizing the distribution of income in the way that has led to our Second Gilded Age. Employment growth was unimpressive, and unemployment remained relatively high, albeit higher in western Europe than in the United States. Rapid wage growth did not resume. Government did not shrink—instead, it dealt with lower tax revenues by running up budget deficits. Investment, enterprise, and growth did not accelerate, in part because the big budget deficits soaked up financing that otherwise could have added to the capital stock. The gap between promise and accomplishment was largest in the United States. Thatcher did accomplish her goal of curbing the British union movement. And she had promised less.

The Reagan administration also planned a massive military buildup—an expansion, not a contraction, of the size of the government. How was greater spending to be reconciled with lower taxes and balanced budgets? Policy elites assured each other that their candidate would say a lot of silly things before the election, but that the candidate and his principal advisors understood the important issue. Tax cuts were to be followed by a ruthless attack against programs like farm subsidies, subsidized student loans, the exemption from taxation of social security income, the subsidization of the southwest's water projects, and so forth. The "weak claims" to the federal government's money would get their just deserts. But those who had weak claims on a technocratic level and yet benefitted from government subsidies did so because they had and were good at exercising their political power.

To reduce anxiety, Reagan and his allies increasingly pushed the idea that no spending cuts at all would be required: the combined effect of the tax cuts and the lifting of the hand of regulation from the economy would be such a spur of economic growth that deficits would be quickly reversed. It would be "morning in America".

No one with a quantitative grasp of the government's budget and its pattern of change ever meant this story to be taken seriously. But the broader administration welcomed its dissemination. But, indeed, the tax cuts, the expansion of the military budget, and the disarray over spending cuts left the United States with large budget deficits throughout the 1980's. Previous decades had seen one or perhaps two years of large budget deficits, and only during deep recessions. But the 1980's saw large budget deficits persist throughout years of prosperity and low unemployment as well. This was bitter for those who had worked hard to elect a Republican administration because they thought Democrats would impoverish America's future by pursuing short-sighted, anti-growth policies.

After the U.S. economy reattained the neighborhood of full employment in the mid-1980s, the Reagan deficits diverted about 4% of national income from investment into consumption spending: instead flowing out of savers' pockets through banks to companies that would buy and install machines, finance flowed out of savers' pockets through banks into the government where it funded the tax cuts for the rich that were then spent on luxury consumption. The rule-of-thumb would be that such large and previously unseen deficits in a near-full employment economy would by themselves have inflicted 0.4%/year of negative drag on productivity and income growth. Plus there was the substantial indirect harm done to U.S. economic growth by the Reagan deficit cycle. For more than half of the 1980's the U.S. dollar was substantially overvalued as the U.S. budget deficit sucked in capital from outside and raised the exchange rate. When a domestic industry's costs are greater than the prices at which foreign firms can sell, the market is sending the domestic industry a signal that it should shrink: foreigners are producing with more relative efficiently, and the resources used in the domestic industry would be put to better use in some other sector where domestic producers have more of a comparative advantage. This was the signal that the market system sent to all U.S. manufacturing industries in the 1980's: that they should cut back on investment and shrink. In this case, it was a false signal—sent not by the market's interpretation of the logic of comparative advantage but by the extraordinary short-run demand of cash to borrow from the U.S. government. But firms responded nevertheless. The U.S. sectors producing tradeable goods shrank. And some of the ground lost would never be recovered. The Reagan tax cuts hammered manufacturing in the Midwest, creating what is now known as the "Rust Belt."

Thus the neoliberal turn, in the form it took during the Reagan administration, did not end the slowdown in productivity growth but reinforced it. Moreover, the size of the government relative to the economy was not improved. The technocratic quality of public regulation was not raised. The major effect was to set the distribution of income on a trend of sharply increasing inequality.

The root problem was that the world just did not seem to work as those advocating for the neoliberal turn had predicted.

Back in 1979, a year before Reagan's election, Milton and Rose Friedman wrote their classic book *Free to Choose: A Personal Statement*, in which they set out and defend their brand of small-government libertarianism. In the book, they made three powerful factual claims—claims that seemed true or maybe true at the time, but that we now know to be pretty clearly false. And their case for small-government libertarianism rested largely on those claims.

The first claim was that macroeconomic distress is caused by the governments, not by the instability of private markets. The form of macroeconomic regulation required to produce stability is straightforward and easily achieved, and it is only because governments try to do too much that we experience difficult fluctuations. The second claim was that externalities (like pollution) were relatively small, and were better dealt with via contract and tort law than through government regulation. Their third and most important claim was that, in the absence of government-mandated discrimination, the market economy would produce a sufficiently egalitarian distribution of income. The equality of equals would be achieved, and the equality of unequals would be avoided. Sashing the safety net and eliminating all legal barriers to equality of opportunity, the Friedmans argued, would lead to a more equitable outcome than the social-democratic approach of monkeying with taxes and subsidies. Alas, each of these claims turned out to be wrong, a fact that wouldn't become clear to (almost) everyone until the Great Recession of 2008.

The story as I have told so far is one of a social-democratic system of governance that ran into bad luck in the 1970s. A combination of built-in flaws, bad luck, and the high expectations for prosperity that had been set during the Thirty Glorious Years caused it to lose support. This gave right-wingers their opening. But their policies, once enacted, were no more successful—save in reducing inflation. Rapid growth did not resume. Indeed, median incomes declined under Reagan and Thatcher, as the era's meager productivity growth was funneled into the pockets of the rich, and a Second Gilded Age drew near. By the end of the 1980s, it was clear that the neoliberal project of rolling back social democracy failed to surpass the bar of high expectations set by the thirty glorious years, just as social democracy itself had.

But the failure of the neoliberal project to boost income growth in the 1980-s did not lead to renewed calls for a further revolution in policy and in political economy. Somehow, the neoliberal project became accepted, conventional wisdom—so much so that in the following decades it gained support from the center-left. It was not Ronald Reagan but Bill Clinton who announced, in one of his State of the Union speeches, that "the era of big government is over". It was not Margaret Thatcher but Barack Obama who called for austerity when the unemployment rate was above 9%: "Families across the country are tightening their belts and making tough decisions. The federal government should do the same". It was Bill Clinton who made his major social-insurance commitment one to "end welfare as we know it". It was Tony Blair who validated Margaret Thatcher's strong allergy to British Labour's union-centered cultural politics. In the United States Democrats and Republicans fenced over what form partial Social Security privatization would take—would your private plan be an add-on or a carve-out? Both sides called for the market rather than the government to guide industrial development. U.S. public investment fell from 7% to 3% of national income. Rather than ramping-up the government role via large-scale increases in R&D funding at the back end and guarantees of procurement at the front end, financial deregulation was trusted to create venture capital and other pools of private investment to fund technological revolutions. Not pollution control mandates but, rather, markets it rights to pollute. Not welfare programs, but—notionally: implementation was always lacking—education programs to eliminate the need for welfare programs. To do more would be to return to outdated social-democratic command-and-control planning initiatives that had demonstrated their failure.

But social democracy had worked in the 1960s and 1970s. And—except on the inflation-control front—neoliberalism had done no better in the 1980s at generating growth and a lot worse at generating equitable growth than social democracy had in the 1970s. What gives?

Centrist and left neoliberals understood themselves as advocates for achieving social-democratic ends through more efficient, market-oriented means. Markets—as Friedrich von Hayek had, rightly, stressed throughout his career—crowdsource the brainstorming and then the implementation of solutions that the market economy sets itself, and the market economy sets itself the task of making things tagged as valuable. Left-neoliberals understood themselves as advocating for this crowdsourcing and the carrot where it would be more effective.

Besides, there was still Big Government, even if Bill Clinton had thrown rhetorical red-meat to working class white men wounded by inclusion by claiming that Big Government's era was over. There were powerful government interventions and policies that appear to have been powerful boosters of growth: education (especially female secondary education) in accelerating the demographic transition; making it easy for domestic producers to acquire industrial core technology (embodied in capital goods or not); administrative simplicity and transparency; transportation and communications infrastructure—all things that made government effective and that only the government could provide. Relying on the market and right-sizing an efficient government could, left-neoliberals hoped, both restore rapid economic growth and attract a durable, centrist governing coalition. Then attention could be turned to trying to reverse the growing perception that treating people equally and generously was not treating people unfairly because it gave to some things that they had not merited and did not deserve.

Rightist neoliberalism, by contrast, was much harder edged. A much steeper-sloped distribution of income and wealth was not a bug but a feature. The top 0.01%—the job creators, the entrepreneurs—deserved to receive not 1% but 5% of national income, to have societal power in the form of the command over human beings' time and effort that money gave you to the extent of not 100 but 500 times the national average. And to tax them, even after their death, was not only impolitic but immoral: theft. This revived and restored classical liberalism was earnestly supported by a plutocrat-funded network of astroturf interest groups and think tanks. Its central claim that social democracy was one huge mistake and if only the governments of the world got rid of it, we could move swiftly to a utopia. The makers wouldn't have to carry the takers on their backs and the takers would shape up, and if they did not they would suffer the consequences, and it would serve them right!

That this did not seem to actually work was not much of an obstacle to belief. As late as 2016, Stanford University's Hoover Institution was paying ex-University of Chicago finance professor John Cochrane to write articles about how a proper neoliberal dismantling of social-democratic regulation to achieve legal and regulatory simplification would, if it had been carried out over the previous generation, have already boosted American incomes by a factor of 8, from \$50,000 to \$400,000 *per capita* per year.

From my perspective, this pattern of empirical failure followed by ideological doubling down was reminiscent of what we are told of religious politics in the Jerusalem-centered Kingdom of Judah late in the First Temple era. The Kingdom of Israel to the north had already been conquered by the Assyrians, its cities leveled, its elite carried off to subjection in Nineveh. The Kings of Judah in Jerusalem sought foreign alliances. The prophets said: No! Trust not in your own swords, and especially not in those of foreign allies who worship strange and false Gods! Trust in YHWH! His strong arm will protect you! And when armies returned defeated, the prophets said: Your problem was that you did not enforce the worship of YHWH strongly enough! You allowed women to dance in the streets making cakes for the Queen of Heaven! Worship YHWH *harder*!

And, truth to tell, the neoliberal turn was very successful in restoring the growth rate—and more than restoring the growth rate—of incomes and wealth of those at the top. The rich had the largest megaphones, and they trumpeted the fact that their incomes were growing rapidly. And those lower down, who voted for candidates and politicians who had turned the wheel and made the neoliberal turn? They were told that if only they were sufficiently worthy, the unleashed market would give to them to, and they more than half believed it.

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The era of the neoliberal turn did deliver one thing out of what its salesmen had promised: it did deliver a rapidly-rising share of the rich in the distribution of national income.

We already noted that America's true upper class, the top 0.01% of households, went from 100 to 500 times the average in terms of their incomes. The next 0.99%, the rest of the top 1%, went from 8 to 17 times the average. The next 4%, the rest of the top 5%, went from 3.25 to 4.25 times the average. The next 5%, the rest of the top 10%, treaded water in their share of income. And all the niches lower down saw their shares of national income fall.

These are the incomes associated with the ranked slots in the income distribution, not the incomes of tagged individuals or households. And as people age, moreover, their incomes rise. And the pie, per capita, was greater in 2016 than it had been in 1979. In real *per capita* terms, the measured U.S. income average was nearly twice as much in 2016 as it had been in 1979. And a great many things of substantial use value were available in 2016 really cheap. That mattered. As a rule-of-thumb a standard physical good—a blender, say--sold in the market has an average use-value to consumers of perhaps twice its market value—that half of the wealth from production and distribution of a physical good comes from the resources, natural and human, used in production that make up its cost of production, and half is consumer surplus, which comes from getting the good to the right user in the right place at the right time. For information-age non-physical commodities, that ratio may well be greater—perhaps five to one, maybe more.

Rising inequality begs caveats. Such as: 55% of U.S. households had home air-conditioning in 1979, rising to 90% by 2016. Washing machines rose from 70% to 80%. Dryers rose from 50% to 80%. 5% of U.S. households had microwave ovens in 1979, and 94% had them by 2016. Computers or tablets went from 0% to 70%, cellphones to more than 95%, and smartphones to more than 75%. The American working and middle classes were richer in 2016 than their counterparts had been in 1979. In the neoliberal era the U.S. was no longer rapidly increasing the education-al level attained by the young, no longer aggressively investing in public infrastructure, no longer keeping the government from partially draining the pool of savings that would have otherwise flowed to finance private investment. Productivity growth was only half the rate it had been during the Thirty Glorious Years. Equitable growth was no longer being delivered. But there was still growth—and growth in typical incomes at a pace that came close to matching that of 1870-1914, and that people over 1913-1938 would have wept to see.

Still, many things that people had taken and do take to be indicia of middle-class status—of having made it—like an easy commute, a detached house in a good neighborhood, the ability to get your children into what you think is a good college *and then to pay for it*, good-enough employer-sponsored health insurance that your family won't be bankrupted and lose the house paying for your heart attack—these seemed more difficult to attain in the America of 2016 than they had been, at least in memory, back in 1979. Plus, there was a person's relative status. A middle-class successful American in the age of social democracy could meet American Motors CEO and future Michigan Governor and HEW Secretary George Romney, and know that he lived in a normal house—albeit a relatively large one—in Bloomfield Hills, MI, and drove a compact car, a Rambler American (admittedly, because American Motors made it). A middle-class successful American in the age of neoliberalism would meet Bain CEO and future Massachusetts Governor and Utah Senator Mitt Romney and know that he had seven houses, some of them mansions, scattered around the country and, well, I do not know what models of cars he has driven, but I have been told that the house in La Jolla, CA, near the beach, has a car elevator. Even with more material wealth at their disposal in absolute terms, that large and that rapidly growing a proportional gulf can make people feel small.

French economist Thomas Piketty popularized the striking differences between how the economy in the global north had functioned in the Gilded Age that preceded World War I, and how it had functioned during the decades that followed World War II. In the First Gilded Age, wealth was predominantly inherited, the rich dominated politics, and economic (as well as race and gender) inequality were extreme. After the upheaval of WWII, everything changed. Income growth accelerated, wealth was predominantly earned (justly or unjustly), politics became dominated by the middle class, and economic inequality was modest (even if race and gender equality remained a long way off). The global north seemed to have entered a new era.

And then things shifted back.

Piketty's central point was that we shouldn't have been surprised. In a capitalist economy it is normal for a large proportion of the wealth to be inherited. It is normal for its distribution to be highly unequal. It is normal for a plutocratic elite, once formed, to use its political power to shape the economy to its own advantages. And it is normal for this to put a drag on economic growth. Rapid growth like 1945-1973, after all, requires creative destruction; and, because it is the plutocrats' wealth that is being destroyed, they are unlikely to encourage it.

Why, then, did the neoliberal era last? It had pointed out that social democracy was no longer delivering the rapid progress towards utopia that it had delivered in the first post-World War II generation. It promised to do better. Yet it did not do better—save for curbing the union movement in Britain, and providing income gains for the rich through tax cuts and through the side-effects of wage stagnation that were truly staggering in magnitude. Why did not discontent with neoliberalism's failure to deliver cause another turn of the political-economic societal-organizational wheel?

I believe it lasted because Ronald Reagan won the Cold War. Or, rather, I believe it was that soon after Ronald Reagan's presidency came to its end, the Cold War came to an end. And the manifest failure of ideas in the shopwindow of possibilities weren't uniquely being sold by the right.

Looking back from today, or from the 1990s, or even from the late 1970s on the phenomenon of really-existing socialism, perhaps the most striking feature is how inevitable the decay and decline of the system was. German sociologist Max Weber did not have to see what happened from 1917-1991 to understand how the history of the Bolshevik régime installed by Lenin and his comrades was going to go. He looked back before 1917, at previous history, at episodes in which entrepreneurship and enterprise had been replaced with bureaucracy. He wrote that wherever "bureaucracy gained the upper hand, as in China and Egypt, it did not disappear": there was going to be no Marxist "withering away" but rather a hypertrophy of a state issuing commands.

German-Polish activist and moral philosopher Rosa Luxemburg, writing in 1918, was even more clear-eyed (and pessimistic):

> Without general elections, without unrestricted freedom of press and assembly, without a free struggle of opinion, life dies out in every public institution…. Only the bureaucracy remains…. A few dozen party leaders of inexhaustible energy and boundless experience direct and rule…. An elite of the working class is invited

> from time to time to meetings where they are to applaud the speeches of the leaders, and to approve proposed resolutions unanimously—at bottom, then, a clique affair…. Such conditions must inevitably cause a brutalization of public life: attempted assassinations, shooting of hostages, etc…

Both Weber and Luxemburg, however, thought that the bureaucracy would be efficient, even if anti-entrepreneurial. Weber thought really-existing socialism would be regimented and organized. Luxemburg thought it would be brutal and dictatorial. Neither predicted the waste, the lines, the irrationality of economic organization, and the centrality of corruption, influence, and networks: *blat.* Neither predicted that when the Iron Curtain fell at the end of the 1980s, it would turn out that the countries where Stalin's (or Ho Chi Minh's, or Kim Il Sung's, or Fidel Castro's) armies had marched would be but ⅕ as prosperous in material terms as the countries just next door that they had not conquered.

Many outside the USSR—for example the left-wing Marxist economist Paul Sweezy—had confidently predicted that Leninist socialism and government planning would deliver a more efficient allocation of productive forces and a faster rate of economic growth than any other possible system. Even many who feared the destructive potential of Leninist socialism agreed that the USSR and its satellites were likely to forge ahead in total and per capita production. Paul Samuelson—no Leninist—wrote the leading post-World War II American economics textbook. Up until the late 1960s, its forecasts showed the USSR surpassing the American economy in production per head well before 2000. That the Soviet Union might produce superior production and equality, if not prosperity, even if inferior with freedom and choice, seemed a possibility even into the 1960s.

Yet all this turned out to be wrong. The Soviet Union and its satellites turned out, when the Iron Curtain fell, to be poor indeed. Gross inefficiency in consumer goods allocation turned out to be generated by forces that also produced gross inefficiency in investment allocation as well, and so the lands studded with automated factories were not. The Soviet Union had enjoyed some successes. By 1960, it had by and large attained a global north level of health, education, and life expectancy. In the 1970s it appeared to have a military at least as strong as the United States—but it did so by devoting 40% of national income rather than 8% of national income to it.

But the economic failures were massive. Increased output was limited to steel, machinery, and military equipment. The collectivization of agriculture ended in ruin: we do not know how many died. We think it was in the mid seven figures. It might have been eight figures. And the Soviet growth rate was not impressively high when seen in a world context.

The late Yegor Gaidar liked to tell the story of the failure of Soviet industrialization through the lenses of grain and oil. As Gaidar put it: "Bukharin and Rykov essentially told Stalin: 'In a peasant country, it is impossible to extract grain by force. There will be civil war'. Stalin answered, 'I will do it nonetheless'." As of the 1950s, Khrushchev was dealing with the consequences of the backward, enserfed agricultural sector Stalin had created. As of 1950, he wrote: "In the last fifteen years, we have not increased the collection of grain. Meanwhile, we are experiencing a radical increase of urban population. How can we resolve this problem?" Khrushchev ultimately decided to throw resources at the problem: undertaking large-scale projects to put a tremendous amount of land under grain cultivation. In the end, the plan failed. In 1963 the USSR informed its allies that it would no longer be able to ship them grain, and started buying grain on the world market.

It may be that the collapse of the Soviet economy and the Soviet model was delayed for a decade by the more-than-tripling of world real oil prices during the OPEC decade of the 1970s. According to Gaidar, the beginning of the end came when Saudi Arabia decided at the end of 1985 to resume pumping oil at capacity, and to crash the price of oil, largely to curb the ambitions of Iran's theocrats. This put the Soviet Union in the extremely difficult position of being unable to earn enough to buy grain to feed its massive population. As Gaider assessed the situation, the Soviets were left without any other option and started borrowing to cover the difference in 1986. But by 1989, when a Soviet effort "to create a consortium of 300 banks to provide a large loan" collapsed, they were forced "to start negotiations directly with Western governments about so-called politically motivated credits."

That was the ultimate revelation of the industrial bankruptcy of the Soviet Union: in a time of low oil prices, the regime could only feed its people by bargaining away political concessions in returns for concessionary loans with which to purchase wheat from abroad.

Ronald Reagan and his team had decided to amp up the Cold War in Latin America by hiring soldiers from Argentina's fascist dictatorship to be the core cadres of what they hoped would become a right-wing guerrilla insurgency against the left-wing "Sandinista" government of Nicaragua. The Argentine generals in their junta thought—did high officials in the Reagan administration like U.N. Ambassador Jeanne Kirkpatrick tell them so?—that in return the U.S. would stay neutral if there was any conflict between Argentina and Britain over the Falkland Islands offshore of Argentina that Britain had colonized centuries before. So they, seeking to boost their domestic political standing via a short victorious war, conquered the Falklands. Margaret Thatcher sent the British navy—with ample American logistical support—to retake them. This was the lift beneath her wings to win her reelection as Prime Minister in 1983. Rather than a failed four-year experiment, neoliberalism became the wind beneath Prime Minister Thatcher's wings to cement the neoliberal turn in Britain.

In the United States the economy came roaring back in time to win reelection for Ronald Reagan in 1984—plus he was superb at being a Head of State-type President, even if rather bad and underqualified as a policy analyst-type President. His wife Nancy Reagan persuaded him to see Mikhail Gorbachev as a potential friend in his second term. And it was the end of the Cold War that was the wind beneath neoliberalism's wings in the United States.

The hopes and claims at the start of the neoliberal turn in 1980 had been that the post-WWII golden-age pace of economic growth in the global north could be restored by governments' and societies' turning (at least partway) to serving the imperatives of the market, rather than the social-democratic practice of managing, supplementing, and controlling the market economy. These hopes and claims were dashed. Growth continued, but at a much slower pace than 1938-1973—albeit at a slightly faster pace than 1870-1914, and a much faster pace than 1914-1938.

Distribution had shifted. Inclusion, especially for women but also to some degree for minorities, meant that the incomes of the "white" native-born did not keep pace with the average. More important, however, was that the neoliberal turn accomplished its explicit goal of transferring income and wealth up to the top of the distribution. The claim that had been that thus incentivizing the rich and the superrich would induce them to work harder and unleash waves of entrepreneurial energy. That claim proved false. But the income and wealth was transferred up.

This was disturbing to established male ethnomajority working and middle classes. After 1980 they found the growth in their real incomes to be little and, in their minds at least, neutralized by the fact that they no longer received the respect from women, minorities, and foreigners—or from the plutocrats growing in wealth and salience in their mental pictures of the world—that was their expectation and that they saw as their due. Somehow, things had been rigged against them. The rich got richer, the unworthy and minority poor got handouts. Hard-working normal white men who deserved more of the good things did not get them. Thus a critical mass of the electorate grew to distrust a system that did not seem to provide them with better lives in 2005 than their predecessors had live in 1975, and they distrusted the system's rulers.

And so when the Great Recession came along, and when recovery from the Great Recession was delayed and hesitant, the government and the political system barely seemed to care. A reason was that the rich dominated public discourse. And, for the rich there was no crisis. But, everyone else—roughly 90% of the US population—continued to lose ground. And for them, the economy since 2007 has proved gravely disappointing. And they seek an explanation, and something to change, and often someone to blame. They are right to do so.