Neoliberalism: an accounting

Part way through the current experiment with neoliberalism, Jim Crotty provided an accounting of the record of over two decades of global economic performance since the onset of the neoliberal revolution. “The evidence to date supports neoliberalism’s critics,” he wrote in 2003. “The promised benefits of neoliberalism have yet to materialise, at least for the majority of the world’s people. Global income growth has slowed, as has the rate of growth of capital accumulation. Productivity growth has deteriorated, real wage growth has declined, inequality has risen in most countries, real interest rates are higher, financial crises erupt with increasing regularity, the less developed nations outside East Asia have fallen even further behind the more advanced, and average unemployment has risen.”

East Asia, of course, hadn’t followed the rules

Other analysts have since drawn similar conclusions. The overall record was reviewed recently in a careful analysis by Marc Weisbrot, Dean Baker and David Rosnick of the Center for Economic and Policy Research. They compare the Washington Consensus years (1980-2005) to the prior two decades (1960-1980). They found that “contrary to popular belief, the past 25 years (1980-2005) have seen a sharply slower rate of economic growth and reduced progress on social indicators for the vast majority of low- and middle-income countries.” The latter of course is the anticipated consequence of the neoliberal programs of privatizing state functions. We see that clearly in the US. Among the OECD countries, the US ranks near the bottom in social justice measures, alongside Turkey, Greece, and Mexico. There is no need to review the scandal of US health care – in violation of popular will, which continues to support universal health care despite virtually no articulate advocacy of this sane stand, so recent polls again reveal.

Recall that these assessments cover the period before the crash – the period of celebration of the Great Moderation, the triumph of efficient market and rational expectations theory, and virtual worship of St. Alan, perhaps the greatest economist since Adam Smith. And to his credit, Greenspan did keep a close eye on the economy. In 1997 testimony to the Senate Banking Committee, Greenspan recognized that – in his words – “Atypical restraint on compensation increases has been evident for a few years now and appears to be mainly the consequence of greater worker insecurity,” insecurity that was, as he noted, markedly increasing even as employment prospects improved.

Greenspan predicted that these benign conditions would be only temporary, and that “suppressed wage cost growth as a consequence of job insecurity” could not
last. He was mistaken. Ten years later, in 2007, real wages for non-supervisory American workers were actually lower than they had been in 1979, when the current neoliberal experiment was just taking off – a remarkable record over 30 years, perhaps unprecedented. Recall that 2007 was the peak of euphoria and self-congratulation, right before the entire intellectual edifice crashed to the ground.

Other consequences of greater worker insecurity have recently come to light. One followed immediately after Greenspan’s Senate testimony: the dramatic increase in mortality among middle-aged white Americans without college degrees, from 1999, recently documented by Anne Case and Angus Deaton, a phenomenon unknown apart from war and pestilence. Their updated current analysis attributes the increase in mortality to despair and loss of status of working people under the neoliberal miracle, concomitants of heightened worker insecurity.

Another such effect reached international prominence in November 2018, when the same sectors of the population that are suffering increased mortality turned for rescue to their bitter class enemy, out of understandable but self-destructive desperation. The consequences for working people are now being exhibited behind the façade of Trump-Bannon-Spicer bluster before the cameras: the systematic enactment of the Ryan legislative programs, which are unusually savage even for the ultra-right. There is probably worse to come as further blows to working people are authorized by the Trump-Roberts Court, which will soon address the Friedrichs case, and with Gorsuch now on board, will probably decide to destroy public sector unions on fraudulent “libertarian” grounds.

Just to show how far we’ve advanced in this respect during the neoliberal era, we might listen to words of Dwight Eisenhower when he was running for president in 1952: “I have no use for those – regardless of their political party – who hold some foolish dream of spinning the clock back to days when unorganized labor was a huddled, almost helpless mass…Today in America unions have a secure place in our industrial life. Only a handful of unreconstructed reactionaries harbor the ugly thought of breaking unions. Only a fool would try to deprive working men and women of the right to join the union of their choice.”

That’s conservatism, vintage 1952, the days of the “golden age” of regulated state capitalism.

Europe has not been spared the lash of neoliberalism, particularly after the 2008 crash, which unleashed the austerity programs of the Troika – the IMF, the ECB, and the European Commission. The severe and harmful impact of these programs,
particularly on the more vulnerable European periphery, had been amply documented by Mark Blyth, Yanis Varoufakis, and Marc Weisbrot, among others. The policies have been criticized as economically absurd even by IMF economists, but the IMF bureaucrats in the Troika listen to different voices: mainly the northern banks.

Weisbrot’s investigations provide clear evidence of a political agenda guiding the destructive economic policies. He studied the reports of the regular IMF consultations with member governments, covering 27 countries for the years 2008-2011 – stopping in 2011, because in 2012 ECB President Mario Draghi uttered the magic words that ended the recurrent crises of the euro, stating that the ECB would do “whatever it takes to preserve the euro. And believe me, it will be enough”. In fact, the words alone were enough, as they would have been from the outset.

In the years before the magic words, Weisbrot discovered “a remarkably consistent and disturbing pattern.” The crisis was exploited as an opportunity to lock in the neoliberal reforms: spending cuts in the public sector rather than tax increases, reduced benefits and public services, cuts in health care, undermining of collective bargaining, and in general moving to create a society “with less bargaining power for labor and lower wages, more inequality and poverty, a smaller government and social safety nets, and measures that reduce growth and employment.” “The IMF papers,” Weisbrot concludes, “detail the agenda of Europe’s decision-makers, and they have accomplished quite a bit of it over the past five years.” An agenda that is quite familiar here and in fact wherever the neoliberal assault has proceeded.

Of course, populations would not vote for these so-called “reforms,” as W points out. For that reason, democracy must be sacrificed on the altar of locking in neoliberal reforms. The device in Europe is straightforward: transfer decision-making to unelected bodies. All three members of the Troika are of course unelected. At the ideological level, the idea that people should have a role in determining their social and economic fate is one of the victims of neoliberal doctrine. That has been revealed with unusual clarity in Europe, particularly when the Greek government dared to ask the opinion of the population about whether they agree that Greece should continue to be destroyed by the so-called “bail outs” – which, in fact, pass through Greece to pay off northern banks for their incompetence in providing careless and risky loans, while Greece’s debt burden actually increases, relative to GDP, and the country is ruined. The reaction among European elites was utter outrage, particularly when the population voted the wrong way. And the Greeks were sternly punished for their illusion that democracy might have a place in neoliberal Europe, even in the country of its
birth: the Troika conditions were made even harsher in reaction to this deviation from good order.

The public response in Europe to the neoliberal assault on democracy has some resemblance to what has been happening here. Centrist political institutions are discredited, public disillusionment, fear, and anger are running high, sometimes taking quite ominous forms. Those old enough to remember the 1930s, as I do, cannot fail to be alarmed at the rise of neo-fascist parties, even in Austria and Germany, of all places, and not only there. And bitter memories are not easy to suppress when a majority of Europeans call for banning all Muslims from Europe, and many want to reverse the real achievements of the European Union, such as free movement of populations and erosion of national borders – which is quite consistent with strengthening of cultural diversity.

We cannot attribute all of these developments across the West to the neoliberal assault, but it is a common and significant factor.

In the US too functioning democracy has declined under the neoliberal assault, developments revealed particularly in detailed studies by Martin Gilens, Ben Page, and Larry Bartlett. These show that the majority of the population, the lower 70% on the income scale, are literally disenfranchised, in that their representatives pay no attention to their attitudes and preferences. As one moves up the scale, influence slowly increases, while at the very top, policies are basically set, by a fraction of 1%.

The significance of these results is underscored by recent work of Tom Ferguson and his colleagues extending his investment theory of politics to congressional elections since 1980. Their studies show that campaign spending is a near perfect predictor of electoral outcomes, a virtual straight line effect over many years. The tendencies go far back, as Ferguson has shown in earlier work, and appear to be enhanced by the neoliberal assault on democracy, implicit in the general principles.

There has of course been resistance to the neoliberal assault, notably in Latin America, where the center-left governments that took power during this millennium went a long way towards reversing the lost decades of the neoliberal years. One consequence is that the IMF – basically an agency of the US treasury in Latin America -- has been expelled, along with all US military bases in South America. There has also been some progress in reversing the harm caused by the Washington consensus programs of the lost decades. And regrettably, there have also been severe failures resulting from caudillism, corruption, and reliance on an
unsustainable extractivist model that as a side effect undermines domestic development. One of the better records is in Ecuador, where poverty has been reduced by 38 percent and extreme poverty by 47 percent, along with reduction in inequality, growth of pc income, substantial increase in social spending and access to health care and education. Elsewhere too there have been advances that seem to be sustainable.

Not every Latin American country participated in the reversal of the neoliberal assault -- or “reforms,” to use the preferred term. One prime exception was Mexico, subjected to a policy decision called NAFTA, which had the express purpose of “locking Mexico in” to the structural reforms of the ‘80s. The effects are reviewed in a recent CEPR study. It finds that Mexico ranks 15th out of 20 Latin American countries in growth of real GDP per person. Real wages were almost the same in 2014 as in 1994. The poverty rate barely budged, while in the rest of the region poverty declined from 44% in 2002 to 28% in 2014. These and a string of other results confirm the general assessment of the neoliberal policies.

The modern experiment with neoliberalism was initiated in Chile after the Pinochet coup in 1973 overthrew the Allende government and installed a harsh dictatorship – the first 9/11. What happened is quite informative about what followed, worldwide.

We might pause for a moment to compare the two 9/11s, the first one in 1973, the second in 2001. The easiest way is with a thought experiment. Imagine that on 9/11 2001, the plane that was downed in Pennsylvania had reached its target, presumably the White House, killed the President, instituted a carefully planned military dictatorship that murdered some 50-100,000 people and tortured 700,000, also establishing a global terror center. That would have been far worse than what happened in September 2001. And it is what indeed happened in 1973, with figures adjusted to pc equivalents, the appropriate measure.

The second 9/11 was celebrated by al-Qaeda. Its far more horrendous precursor was celebrated by the United States government and business world – facts worth pondering -- but let’s put topic aside.

The US of course had strongly opposed the Allende government, and celebrated the new military dictatorship with enthusiasm. Among other punishments, loans had been withheld during the period of Chilean democracy. 9/11 pulled the cork out of the bottle and there was a flood of loans from the WB and private investors.
The new military rulers were praised by US Sec of Treasury William Simon for having brought “economic freedom” to Chile.

The applause was reminiscent of Washington’s reaction to the military coup in Brazil in 1964, establishing the first of the neo-Nazi terror-and-torture states that spread like hideous plague through the hemisphere, the curse reaching Central America in the ‘80s. Kennedy’s Ambassador Lincoln Gordon explained that Washington supported the military forces that overthrew parliamentary democracy in recognition of their “basically democratic and pro-United States orientation.” While the torturers and assassins were carrying out their necessary work of cleansing the society, Gordon hailed their achievement as “the most decisive victory for freedom in the mid-twentieth century.” The “democratic rebellion,” Gordon cabled Washington, would help in “restraining left-wing excesses” of the former moderate elected government. And the “democratic forces” now in charge should “create a greatly improved climate for private investment.”

The US is a global power, and policies and attitudes tend to be consistent worldwide. We should not be surprised, then, at the discovery that at the same time, 1965, US liberal opinion was welcoming with unrestrained joy what it recognized to be “the staggering mass slaughter” in Indonesia that instituted a vicious dictatorship that opened the rich resources of the country to private investment, “a gleam of light in Asia,” as it was described by NYT columnist James Reston, articulating the common view.

The Pinochet dictatorship brought in the “Chicago Boys”, economists trained in the doctrines of leading proponents of neoliberalism. They had perfect experimental conditions. There could be no objections because of the brutality of the dictatorship. They had overwhelming support from the hemispheric superpower and the institutions it dominated, like the WB. Furthermore, the alleged “free market” economy could rely on a highly efficient state-owned Copper producer, Codelco, a mainstay of the economy that the dictatorship didn’t dare to touch.

Worth mentioning that although neoliberalism proclaims its allegiance to free markets and free trade, practice is different, as the Chilean example illustrates. Reagan was the same. Much lofty rhetoric about free markets, but quick resort to extreme protectionism to save American industries from more advanced and successful Japanese competitors – autos, semiconductors, others – sometimes called “voluntary export restrictions,” where “voluntary” means “do what we say
or else.” As for the more recent “free trade agreements,” these are at root highly protectionist investor rights agreements.

The Chicago boys proceeded to impose the theoretical model they had been taught. They were visited by Milton Friedman himself along with his associate Arnold Harberger. Both made a series of well-publicized appearances to promote a “shock treatment” for the economy. In Friedman’s words, shock therapy -- rapid imposition of market systems is “the only medicine. Absolutely. There is no other. There is no other long-term solution.”

Within a few years, by 1982, the results of the experiment were in: The economy collapsed. Note that 1982, the year of the collapse of the perfect experiment, was the year in which Friedman reissued his classic manifesto *Capitalism and Freedom*, with a new preface on the triumph of the neoliberal model.

In Chile, in order to salvage something from the neoliberal wreckage, the state had to take over a large part of the economy. One prominent Chilean economist (Gabriel Palma) points out that the Pinochet government ended up with a share of the economy far greater than the Allende's government ever dreamed off... Basically, the whole of the banking system ended up owned by the government, and a large share of the real sector as well (including export activities, manufacturing, services, etc.) -- what was called at the time “The Chicago Road to Socialism.”

Pinochet then sacked the Chicago boys and brought in entrepreneurs of the traditional old-fashioned right to set the economy back to some sort of functioning.

The post-dictatorship years of mostly center-left governments introduced some improvements, particularly during Bachelet’s terms, but, as a recent scholarly review points out, “none of the reforms dismantled the underlying structures put in place by the military dictatorship.” There have been constant and in recent years vigorous protests over the privatized pension, health and educational systems, which are failing most of the population – but not the rich, or the military and police: Pinochet was careful to ensure that they would be protected by the former state pension system.

The Chilean experiment with neoliberalism and shock therapy was soon followed by others. The most significant one was after the collapse of the Soviet Union. US advisers administered shock therapy in accord with neoliberal principles – rapid imposition of privatization, decontrol of prices, general market doctrines. The
result was an economic collapse and loss of nearly half of Russia’s GDP in five years. Also a sharp increase in the death rate, reaching millions of excess deaths in the 1990s. And robbery of state assets on a colossal scale, leading to the corrupt oligarchy and the Putin reaction. Another grand success.

And as we have seen, hardly untypical.

Or for that matter, hardly surprising. I began by saying that the Chilean dictatorship opened the first “modern experiment” with neoliberalism. The reason for the qualification is that it was not really new. Similar socioeconomic regimes had been imposed by imperial powers for centuries, pretty much creating the third world.

“Neoliberalism” is a strange term: in many respects it is neither new nor liberal, even in technical economic sense. There is no time to review the interesting historical record. What it reveals, generally, is that from England to the US to Japan and the East Asian tigers, the countries that have developed are those that rejected the neoliberal principles – for the US, advised by no less an economist than Adam Smith – and rejected by the independent Republic, which instead followed England’s model of state-led development, protectionism, appropriating superior technology from others, with some dallying with free trade when it was advantageous. The countries that were under imperial domination were compelled by force to pursue these doctrines, and became the third world. There are many striking illustrations.

History is a complicated matter, with many obscure interactions, but these are among the clearer lessons that economic history provides. And they are known to mainstream economic historians. Among others, Paul Bairoch amply documents his conclusion that “it is difficult to find another case where the facts so contradict a dominant theory” as the doctrine that free markets were the engine of growth.

There have been some notable successes of the modern experiment with neoliberal reforms. These were instituted in large part to arrest the declining rate of profit, due in part to more popular power, particularly labor power, in the 1960s. That has been achieved. Profitability has been restored, particularly in the largely predatory financial institutions, which exploded during the neoliberal years and are now even bigger and richer than they were before the 2008 financial crisis for which they were largely responsible.
There are other successes that are insufficiently appreciated. Some have been carefully studied by political economist Sean Starrs in recent work. He points out that the conventional estimates of national wealth in terms of GDP are misleading in the era of neoliberal globalization. With complex integrated supply chains, subcontracting, and other such devices, corporate ownership of the world’s wealth is becoming a more realistic measure of global power than national wealth, as the world departs more than before from the model of nationally discrete political economies. Investigating corporate ownership, Starrs finds that in virtually every economic sector – manufacturing, finance, services, retail and others -- US corporations are well in the lead in ownership of the global economy. Overall, their ownership is close to 50% of the total, roughly the maximum estimate of US national wealth in 1945, at the historical peak of US power. National wealth by conventional measures has declined from 1945 to the present, to maybe 20%. But US corporate ownership of the world has exploded.

So in some respects, all is well. Neoliberalism has been a grand success.

To quote the head of state of Brazil’s military dictatorship, General Emilio Medici, in 1971: “the economy is doing fine, but the people aren’t.” Perhaps the simplest one-sentence accounting of neoliberalism.