

Trump, Sanders, and the Crisis of Neoliberalism (Part One)

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We continue to live in the shadow of the Great Recession of 2008. The protracted and partial economic recovery has led to a political and ideological crisis of neoliberalism. Understanding its causes and scope can give us insight into U.S. politics, both left, right, and center. In the first part of this article, I consider the neoliberal role in reshaping the postwar U.S. political economy. In part two, I will consider its current implications, as embodied especially in the politics of Trump and Sanders, along with the potential role that the Green Party might play.

Neoliberalism is based on an ideology of capitalist political economy that emphasizes the central role of so-called free markets both within nations and across national boundaries (identified with free trade, globalization, and multinationalism), and the primacy of traditional morality (especially traditionally-derived Christian morality), centered on individuals and family, while diminishing, or entirely denying, the role—and even the existence—of society.[1] The role of the state is seen as protecting the market from hostile forces on the outside and sometimes from itself, but only when absolutely necessary. Over the last several decades, it has become largely hegemonic in most of the capitalist world, with China arguably the most prominent exception.

The need for neoliberal reforms arose from the secular profitability decline following the postwar boom, illustrated in Fig. 1A. This was amplified in the 1970s both by stagflation and by the 1973 oil crisis. The initial steps of neoliberal policy implementation were taken under Democratic President Carter, most prominently through the deregulation of the airline industry in 1978 and the Volker shock of 1979 (a sharp increase in interest rates to reduce inflation). Prefigured by the rightward shift of the Carter administration in both domestic and foreign policy, the neoliberal drive to deregulate and privatize accelerated under Reagan, most notoriously through the so-called supply-side tax cuts of 1981 and 1986, and the destruction of the air traffic controllers union (PATCO) following the defeat of their 1981 strike.

The further implementation of neoliberal policies continued as a bipartisan effort of both Republican and Democratic administrations. Among the most salient examples of this bipartisanship are Clinton's 1996 welfare reform, the Bush tax cuts of 2001 and 2003, and Obama's private-based Affordable Care Act of 2010. On the judicial level, it included the *Citizens United vs. FEC* case of 2010, in which the Supreme Court determined that money is a form of protected political speech. It was the adoption of these and other neoliberal policies by the Democratic Party, especially after the defeat of Mondale in the 1984 presidential election, that began a process leading to the defection of a significant section of its working-class and middle-class base.

Measured in narrow economic terms as profit, neoliberalism has been a success. Fig. 1A shows profits as a percentage of gross domestic income (GDI) for the U.S. economy as a whole from 1947

to 2019. From the end of World War II until about 1980, the period that includes the postwar boom, the profit share declined tendentially from historically high values immediately following the war. This tendency of declining profit share reversed during the Reagan years as neoliberal policies were put in place, and today has reached levels similar to those seen during the 1950s. In Marxian terms, and by most measures, the rate of profit declined during the 1950s through the 1970s, and then was restored, at least partially, during the subsequent decades.[2]

Profits up, wages down

There is no secret to the restoration of profit share. It has come directly from wages, as Fig. 1B shows. Employee compensation as a percentage of Gross Domestic Income (GDI, quantitatively equivalent to GDP) rose during the postwar boom as profits declined. From the 1980s onwards, employee compensation declined as a percentage of GDI, until it reached its current level, back to where it was in the early 1950s.

Profit share and employee compensation share show a similar, but inverted, pattern. Profits fell during the 1947-1980 period, then tended to rise following 1980. Employee compensation shows the obverse pattern, rising during the initial period, and then falling. In Marxian terms, neoliberalism succeeded by increasing the rate of exploitation.[3]

Profits have not risen as much as wages have fallen due to an increase in the cost of fixed capital (mainly machinery and facilities), especially during the late 1960s through the 1970s. Fixed capital rates increased during both periods, but at a smaller rate in the more recent years. Taxes on production tended to rise somewhat during the first period, then fall slightly, with a decline apparent from the early 1970s. Although taxes declined somewhat in the 1970s, this had only a small quantitative influence on profit share.

To understand the current conjuncture, it is helpful to look more deeply into the conditions that made profit share restoration possible. Key factors include sectoral shifts (including the rise of service and finance at the expense of manufacturing), foreign trade and globalization, the decline of union power, and the commodification of everyday life and social reproduction. These factors taken together underlie our understanding of the current political conjuncture, and most importantly, the rise in inequality.



Figure 1: A. Profit share (net operating surplus as percent of gross domestic income), 1947-2019.

B. Employee compensation (1947Q1-2019Q4)



Figure 1: B. Employee compensation as percent of gross domestic income, 1947-2019.

The 1970s were a turbulent time for capitalism, both in the United States and internationally. This was the period of the Vietnam War, the oil shock, stagnation, and the growing pressure of imports, especially from Germany and Japan, on the U.S. domestic production sector.[4] It also saw the growth of the service and financial sectors, and a decline in the manufacturing sector. Trade union density, especially in the private sector, continued its secular decline. The increase in wages that had previously characterized the postwar U.S. economy was reversed. At the same time, a decrease in the Federal tax rate had two effects. It facilitated the transfer of wealth to the already wealthy and it encouraged investment in rapidly developing automation, communication, and information technologies. Coupled with a downward pressure on wages, this new technology led to a systemic rise in profitability.

While the development of technology is often recognized as an important causal component in influencing historical development, it does not act in isolation from other forces, most importantly class. The last several decades have seen a significant increase in the use of temp workers, day laborers, contractors, management consultants, adjunct professors, and even military mercenaries. All these jobs and others like them have some things in common: they are temporary, insecure, and profitable to capital. The apparent freedom these jobs provide comes at the price of open-ended insecurity. Recently developed technology, like the Internet, the laptop computer, and the smartphone, simply facilitate these ongoing developments. That they make work precarious is a circumstance of capitalism, not of technology. It is easy to imagine a non-exploitative economy where the use of these technologies would help to transform work in a liberatory direction.

It is important to note that the share of profits going to the productive sector (principally manufacturing) declined by about 50 percent from 1947 to 2020. Although financial sector profits increased by about 90 percent during these years, this does not appear to be the principal sources of shifting sectoral profits away from the traditional productive sectors. The biggest change arose from the rapid growth of the services sector, whose profit share increased by over 1000 percent during that period. The service sector is now the second largest profit source in the economy. The share going to the trade sector remained largely unchanged.

Fictitious and real profits in the financial sector are based on loans to industry, loans to households, and speculative profits (bets on future earnings).[5] Financialization, amplified by neoliberal deregulation, clearly played a determinative role in precipitating the crisis of 2008.[6] However, econometric data suggest that over the postwar period, the decline in profit rate in the traditional

productive sectors cannot be attributed principally to an increase in financial profits (either real or fictitious) at the expense of productive profits. Productive profits declined from about a 70 percent share of total profits to less than 40 percent from 1948-2017, about a 30 percent decline. In the same interval, financial profit share rose by somewhat over 5 percent. The largest shift is seen in the service sector, whose profit share rose from about 2 percent in 1948, to approximately 30 percent by the 2000s.

Globalization

Liberalization of capital flow across borders (but not liberalization of labor flow) has been a shared centerpiece of capitalist political economics since the end of World War II, with the establishment of Bretton Woods, the World Bank, and the International Monetary Fund. Globalization was also facilitated by several technological developments, including containerization, developed in the 1950s, and improved communications and information technologies.

By the 1970s, threats to U.S. economic hegemony came from Germany and Japan, and militarily from the Soviet Union. At present, the biggest threat to U.S. capital comes from China, both economically and militarily. The United States has responded to China's expansion through the rise of multilateral trade deals like NAFTA (now the USMCA), CAFTA (later CAFTA-DR), and the TPP (now the CPTPP without U.S. participation). In a more recent reversal of conventional neoliberal policies, Trump has resorted to tariff protection, of which more later.

Capital flows to those regions that are able to maintain a comparative advantage. For the U.S. economy that meant that capital could take advantage of cheaper labor costs in foreign markets. The result was a downward pressure on U.S. wages which acted in parallel with the downward pressure on wages coming from the implementation of computer-based technologies.

Working-class organization

Both union density and the incidence of strikes have declined in the United States over the last several decades to historically low levels, although there has been a modest uptick in strikes in the last year or two. The decline in union density following WWII correlates well with the decline in the U.S. domestic manufacturing sector, which facilitated the ongoing attacks on organized labor. The shift from manufacturing to service meant that work had become more dispersed. The social ties of work became frayed. At one time you may have worked in a factory whose workers could be counted in the hundreds or thousands. Now you might work in a convenience store, seeing perhaps only one or two co-workers during the course of a day. As plants closed in the former industrial centers like Detroit and other Midwest factory cities and towns, the urban working-class communities were devastated. Plants closed in the heavily unionized Rust Belt, while new ones opened in union-hostile, often rural, areas in the South and elsewhere.

The changing sociology of work in the interests of profit realization accounts for only one thread in the story of diminished working-class organization and power. Workplace sociology is entangled with the class struggle, locally, nationally, and internationally. There were a number of additional factors, both objective and subjective, whose interaction first reversed, then later retarded the development of working-class consciousness in the postwar United States. The subjective factors all played out against a background itself dominated by two factors. First, the defeat of the Axis powers in WWII led directly to the Cold War between the two major international blocs, one led by the United States, the other by the Soviet Union. The second was the emergence of the United States as the principal beneficiary of the war, expanding its domination of the world's capitalist economies that had already begun following World War I.

Anticommunism was the leading edge and public face of the assault against the working class. The Smith Act, passed in 1940, made illegal any activity with the revolutionary intent to overthrow the government. The Smith Act prosecutions of the 1940s and 1950s acted as a springboard for the ousting of thousands of Communists and other leftists from their jobs, both in industry and in the trade-union leadership.

The Labor-Management Relations Act of 1947, better known as the Taft-Hartley Act, is perhaps the single most important (and lasting) legislative attack on workers' rights that arose during this period. It had two principal goals. The first was to drive Communists out of the organized labor movement. Within two years of passage, all but two international unions had submitted to the provisions of the act, effectively driving most Communists and other leftists out of the union leadership.[7]

Second, Taft-Hartley went far beyond simple anticommunism to weaken fundamentally the entire organized labor movement. According to the socialist historian and journalist Art Preis, the law was a compendium of many of the most onerous anti-labor proposals.[8] Among other features, it outlawed jurisdictional strikes, closed shops, and secondary boycotts and strikes. It also prohibited independent expenditures for federal elections, and allowed the U.S. President to intervene in strikes that supposedly endangered national security.[9] In the words of Preis, Taft-Hartley "thus sought to impose direct continuous governmental regulation over the unions in the selection of their officers, in their economic and organizational struggles and in their political activity." [10] The union leadership attempted to push back against Taft-Hartley through their friends within the Democratic Party, but without success. President Truman vetoed the bill, knowing his veto would be overridden. Later, Truman used provisions of Taft-Hartley as a strike-breaking tool.[11] Taft-Hartley is a continuing frontal assault on organized labor that has largely succeeded.

The net result was and is a labor movement that has lost its power as an independent force and has largely come to depend on its diminishing influence within the Democratic Party. Attacks on the unions are attacks on both the trade union bureaucracy and the rank and file. Since these attacks are often carried out by Republicans, this has cemented the ties between the trade union bureaucracy and the post-FDR Democratic Party, that promises much but delivers little. In over 70 years, the Democrats have failed to repeal the notoriously anti-labor Taft-Hartley act, for example.

The commodification of everyday life

Capitalism is an economic system dominated by the production of commodities for sale at a profit. Neoliberal market fetishism leads naturally to the commodification of everyday life and social reproduction, including, among other examples, household functions like child-rearing and education, either directly through school privatization or indirectly by, for example, financing higher education through student debt. As everyday life deteriorated, mass incarceration increased the prison population. Seeing a profit source, many new inmates, disproportionately black, have been housed in private, for-profit prisons. More recently, undocumented migrants have shared a similar fate.

Facilitated by deregulation and a sympathetic judiciary, capital owns and controls the channels of mass communication, including social media and the Internet. Reagan's repeal of the fairness doctrine, followed by broadcasting deregulation, has led to privatizing the public airways, and by extension, the Internet. The result has been a bifurcation between right-wing Trump media (e.g., Fox, Sinclair, talk radio, Breitbart) and mainstream centrism (Times, WaPo, CNN, MSNBC). While nominally non-profit, public broadcasting relies on corporate funding along with corporate party legislative support, which together exercise direct and indirect control over its ideological orientation.

The contemporary crisis of neoliberalism

The Great Recession of 2008, its aftermath, and now the COVID-19 pandemic, have called into question the fundamental assumption of neoliberalism that the market must be free to work out its trajectory, independent of state intervention. More importantly, the partial post-2008 recovery was a recovery of profitability, but not of wages or of living standards. U.S. hegemony has also been threatened by the failure of U.S. imperial wars in Iraq and Afghanistan, hindering Washington's ability to take on economically and militarily the growing threat from China and, secondarily, Russia. And behind all of this is the looming climate crisis.

What we might identify as the current crisis of neoliberalism is principally a social and political crisis—a crisis of legitimacy. Capital will always hope that profit rates were higher, but, overall, profits and wealth have been growing over the last several decades, with rising inequality following it its wake.[12] The real fight, as always under capitalism, is over the division of the surplus. The political and social divisions are largely blowback from the (partial but real) success of neoliberalism in restoring the postwar profit rate at the expense of working-class income. This was amplified by the response to the economic crisis which began in 2008, in which the banks and large corporations were bailed out at the expense of the working class.

As Gramsci presciently observed in his *Prison Notebooks*: “At a certain point in their historical lives, social groups become detached from their traditional parties. In other words, the traditional parties in that particular organization form, with the particular men who constitute, represent, and lead them, are no longer recognized by the class (or fraction of a class) as its expression. When such crises occur, the immediate situation becomes delicate and dangerous, because the field is open for violent solutions, for the activities of unknown forces, represented by charismatic ‘men of destiny.’”[13]

The aftermath of the 2008 financial crisis and now the COVID-19 pandemic have opened new forms of ideological competition, both between and within the principal social classes. On the plane of U.S. electoral politics, three responses have emerged to address this. First is the reactionary ethno-nationalism personified by Donald Trump. Second is the reformist and social democratic response identified with Bernie Sanders and Alexandria Ocasio-Cortez. The third tendency, personified currently by third-way centrist Democrat Joe Biden, doubles down on classical neoliberalism, including neoliberal globalization. The United States is not unique in this regard. Similar patterns have been playing out both in Europe and in south and west Asia.

In a curious way, all three of these tendencies echo the past, although in different ways. While the third-way Democrats objectively represent the present as the direct continuity of neoliberalism, Trump and Sanders look towards more distant models in U.S. political history, while adding somethings distinctively new to the debate.

To be continued...

[1] See, e.g., W. Brown, *In the Ruins of Neoliberalism* (New York: Columbia University Press, 2019).

[2] Deepankar Basu and Ramaa Vasudevan, “Technology, distribution and the rate of profit in the U.S. economy: understanding the current crisis,” *Cambridge Journal of Economics*, 37:1, 57-89 (2013), <https://doi.org/10.1093/cje/bes035>.

[3] https://www.academia.edu/38104234/Profit_Rate_and_Domestic_Income_Shares_in_the_US_Economy

- [4] Robert Brenner, *The Economics of Global Turbulence* (New York: Verso, 2006).
- [5] Costas Lapavistas, "Financialization and Capitalist Accumulation," *Research on Money and Finance*, Discussion Paper No. 16 (2010). Murray Smith and Jonah Butovsky, "Profitability and the Roots of the Global Crisis," *Historical Materialism*, 20:4, 39-74 (2012), <https://doi.org/10.1163/1569206X-12341273>.
- [6] David McNally, *Global Slump* (Oakland, CA: PM Press, 2011). Leo Panitch and Sam Gindin, *The Making of Global Capitalism* (New York: Verso, 2012).
- [7] https://en.wikipedia.org/wiki/Taft%E2%80%93Hartley_Act#Anti-communism
- [8] *Labor's Giant Step* (New York: Pathfinder Press, 1972), pp.314-15.
- [9] https://en.wikipedia.org/wiki/Taft%E2%80%93Hartley_Act
- [10] Preis, p.315.
- [11] Preis, Ch.28.
- [12] <https://www.oxfam.org/en/press-releases/worlds-billionaires-have-more-wealth-46-billionpeople>
- [13] David Forgacs, ed., *The Antonio Gramsci Reader: Selected Writings, 1916-1935* (New York: NYU Press, 2000), pp.217-218.