Book Reviews

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THE GROWING NEOLIBERAL THREAT TO THE ECONOMIC SECURITY OF WORKERS AND RETIREES

Gerard Dumenil, & Dominique Levy. (2011). *The Crisis of Neoliberalism*. London: Harvard University Press, 400 pp., $49.95 (hard cover).

Jacob Hacker, & Paul Pierson. (2010). *Winner Take All Politics: How Washington Made the Rich Richer and Turned Its Back on the Middle Class*. New York: Simon & Schuster, 360 pp., $27.00 (hard cover).

Michael Hirsh. (2010). *Capital Offense: How Washington's Wise Men Turned America's Future Over to Wall Street*. Hoboken, NJ: John Wiley & Sons, Inc, 342 pp., $26.95 (hard cover).

Jeff Madrick. (2011). *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present*. New York: Alfred A. Knopf, 468 pp., $30.00 (hard cover).

Judith Stein. (2010). *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies*. New Haven, CT: Yale University Press, 384 pp., $25.00 (paper).

The June 2008 issue of *The Gerontologist* includes a review essay I wrote on the political economy of retirement security based on several books that were critical of the conservative (neoliberal) policies that have governed the U.S. economy for 30 years (Polivka, 2008). The essay described the fundamental changes in policy that put the United States on a path away from the relatively expansive role for the federal government in managing the economy associated with the Keynesian strategies of the New Deal and toward the antistatism, lower taxes on wealth, reduced financial regulation, and other conservative procorporate priorities identified with Ronald Reagan and Milton Friedman.

The economic theory and ideology offered in support of these conservative priorities is now commonly referred to as neoliberalism. This term is reasonably apt, in that it describes a set of concepts drawn from the classical period of liberal economic theorizing during the 19th and earlier centuries by such thinkers as Adam Smith, David Ricardo, John Stuart Mill, and Thomas Malthus, whose work was revised and updated by Hayek, Mises, and others during the mid-20th century and then later adopted by Milton Friedman and other members of the Chicago School of free market economic theory. This school of conservative economics, with its emphasis on unregulated markets that are somehow self-regulating if left alone, free trade among nations, low taxes, big cuts in public programs (except those designed to support corporate bailouts), and individual responsibility for economic security, became known over the last 30 years as neoliberalism.

The 2008 essay also assessed the effects of the conservative economic agenda on overall economic performance over a 25-year period and its differential impact on ordinary workers and upper income corporate managers, shareholders, and professionals. Part of the original rationale for the shift from the Keynesian policies of managed capitalism to the conservative, neoliberal economic model was that economic growth had declined during the decade before 1980, and something new was needed to accelerate the growth rate. After 25 years, however, of lower taxes, fewer regulations, declining union membership, and expanded free trade, the U.S. growth rate was actually lower on average from 1981 to 2010 than during the period from 1946 to 1975.

Since 2008 much has happened in regard to workers' and retirees' economic security and little of it for the better. Even though the 2008 essay included a lengthy discussion of the main reasons our economy was "failing to thrive" and the sig-

nificance of this failure for the economic security of workers and retirees, especially the boomers, I did not anticipate that the Great Recession would occur so soon and that its impact and the political response to it would be so deeply threatening to the future economic security of most workers and retirees.

Since the essay was written in late 2007, four major economic events with deep and long-lasting effects have occurred. First, the financial sector began to unravel at an accelerating rate in the spring of 2008 and then froze with the collapse of Lehman Brothers and the near bankruptcy of AIG, the insurance giant, in the fall, leading to the $700 billion bailout of the banks (Troubled Asset Relief Program [TARP]) and investment firms shortly before Barack Obama became president. These events were largely responsible for a rapid and huge increase in the number of unemployed workers and a quick slide into the deepest recession since the Great Depression. President Obama and the Democratic majorities in Congress were able to pass a nearly $800 billion stimulus package in the spring of 2009, which helped to prevent the unemployment rate from rising past 10.2% but failed by 2010 to reduce the rate less than 9% or increase GDP growth to the extent (3.5% and higher) needed to return the unemployment rate to prerecession levels of 5%–6%. The Great Recession reduced federal revenues to their lowest level since the 1950s as a percentage of GDP, which, in combination with the Bush II–era tax cuts and the nation's two unfunded wars (Afghanistan and Iraq), led to the largest annual deficit ($1 trillion plus) since World War II (WWII) and a retreat to budget austerity following the Republican victories in the 2010 Congressional elections. The debt ceiling debate was finally resolved by a compromise between the parties to cut the federal budget by $2.3 trillion over the next decade, solidifying austerity (program cuts and no tax increases) as official federal policy until at least the 2012 elections. These events essentially mean that the costs of the Great Recession will be disproportionately borne by members of the working and middle classes rather than the most affluent Americans (the top 1%–2% of earners and wealth holders) who were disproportionately responsible for causing the Great Recession. Historical experience would indicate that economic austerity is likely to deepen the recession and delay any recovery for several years, which could increase pressure for further austerity measures, including cuts in Social Security, Medicare, and Medicaid, the major remaining pillars of our retirement security system.

The most important analytical and political (public policy) tasks now are to understand the origins of our failing economy and the constraints and opportunities for policy changes inherent in our current and emerging political environment. These are the principal tasks of this essay and of the books reviewed that I rely on as major source material. The main goal of the essay is to construct a reasonably coherent narrative addressing these tasks by integrating the information in these books and from other sources and offering my own thoughts on how we can ensure the economic security of workers and retirees. Thirty years of neoliberal policies have left an increasing number of workers trapped in low-wage jobs with declining benefits and diminishing prospects for the kind of economic security in retirement their parents were able to take for granted. How did we arrive at this state in the history of our political economy, and how might we restore the kind of shared wealth economy we had from WWII to the end of the 1970s? These are the organizing questions for this essay.

The Continuing Erosion of Economic Security

The slower growth rate of the past three decades did not affect everyone the same. Wages for the average worker were stagnant from 1973 to 2000 and actually declined from 2001 to the present, along with savings and the value of private pensions. In contrast, the income and wealth of the top 20% of earners increased substantially, especially for the top 1% who receive much of their income from investment-related earnings that are taxed at the 15% capital gains rate. More than 75% of the gains from productivity increases have gone to the top 1% since the 1980s, and more than 80% of all the increases in income between 2001 and 2008 went to the same wealthy minority (Congressional Budget Office, 2011). These trends have made the United States the most economically unequal country in the developed world after Mexico and Turkey, and they have steadily diminished the resources needed to maintain the middle class and keep the poverty rate from growing.

The once-great American jobs machine has broken down over the last decade, and social mobility has been slowing for much longer. These trends also have contributed to the decades-long erosion in retirement security as unemployment and stagnant or declining wages have drained families of the

capacity to save for retirement. The replacement of defined-benefits (DB) pensions for the half of the U.S. workers with a pension of any kind by defined-contributions (DC) plans that depend on the variable performance of markets have made income from private pensions generally smaller and less reliable. Increasing health care costs also have eroded the retirement security prospects of most workers.

The level of economic risk–facing retirees has risen over the last 30 years. According to an analysis conducted by Meschede, Shapiro, and Wheary (2009), 78% of all senior households are financially vulnerable and do not have enough economic resources to sustain them for the rest of their lives. Eighty-four percent of single-person senior households, mostly single women, are financially vulnerable, and 36% are at serious financial risk. Most of this risk is generated by the lack of assets (low financial net worth) caused largely by the inability to save while working, by small or no private pensions, by high-housing costs even though seniors have higher home ownership rates than younger cohorts, by high and rising out-of-pocket medical costs, and by insufficient monthly income to absorb unexpected expenses. Furthermore, the percentage of wages Social Security replaces in retirement is projected to decline from 40% today to less than 30% in 20 years, largely due to rising out-of-pocket health care costs. As a result of these trends, the Center for Retirement Research at Boston College now estimates that more than 50% of future retirees will not have incomes equal to 70%–80% of what they earned while working, which is generally considered necessary to sustain an adequate quality of life in retirement (Munnell, 2003). The combined impact of these threats to retirement security is rapidly creating a retirement security crisis that cannot be understood or effectively addressed without recognizing its origins in the conservative, neoliberal policies that have dominated the U.S. political economy for the last three decades.

The economic security of most workers and retirees is not a neoliberal priority and cannot be restored without the kind of major, qualitative changes in current priorities. Doubling down on the same hard (Reagan, Bush II) or soft (Clinton) neoliberal economic policies that caused the Great Recession and ill-served the interests of working families for the last 30 years will not restore their economic security as workers or retirees. The steady, fairly shared (equitable) growth of the U.S. economy after WWII created the necessary conditions for retirement security, one of the great social inventions of the U.S. political culture, and it will not be maintained in the absence of similar, equitable growth in the economy, which now also must be made ecologically sustainable. The record of the last 30 years demonstrates that the neoliberal model of political economy will not achieve either equitable or sustainable economic growth, and its continuing policy dominance will only continue to erode retirement security.

The Origins and Effects of Neoliberal Economic Policy

Recent scholarship on the history of neoliberal policies has searched for their origins in the decade before 1980. This scholarship includes the books reviewed here, especially Judith Stein's *The Pivotal Decade*, Jeff Madrick's *The Age of Greed*, and *Winner Take All* of Jacob Hacker and Paul Pierson. For these authors, an accurate understanding of our current economic woes and their differential impact on the wealthy and average workers and retirees requires a careful analysis of the history of our political economy since WWII, with a focus on economic policy since the mid-1970s. The following paragraphs summarize this history, from the Carter Administration to the present.

Wages and private sector retirement benefits grew steadily from WWII until the mid-1970s, reflecting the postwar growth, the power of unions, and the management/union consensus on worker compensation. All of this began to change in the mid-1970s with fundamental transformations in the domestic and global economies, including the steady decline of union membership and power. Corporate profits began to decline in the late 1960s and declined further in the 1970s as global economic competition (Germany and Japan) grew, energy costs increased by threefold with the rise of OPEC, and worker compensation continued to increase in step with productivity growth (80% increase in family income from 1946 to 1975).

The postwar era of regulated capitalism and equitable long-term growth ended with the emergence of highly competitive economies across the world, especially Germany and Japan. The enormous growth of the global economy after 1950 created more productive capacity by the mid-1970s than could be profitably employed, which, in combination with the relatively high wages workers were able to achieve through strong unions and supportive governments, put increasing pressure on profits after the late 1960s.

These trends generated a coordinated and sustained corporate campaign to reduce the power of labor and expand investment and production abroad through free trade pacts and increased foreign direct investment. The success of this conservative initiative was evident in the Carter Administration's failure (despite Democratic majorities in Congress) to pass a health care reform bill designed to achieve gradual universal coverage, labor law reform to reduce barriers to union growth and constraints on strike activities, or progressive tax reform (a regressive reduction in capital gains taxes did pass, however). A severely weakened version of full-employment legislation (the Humphrey–Hawkins Act) did pass, but it was so stripped of meaningful provisions that it produced no real benefits.

A small Keynesian fiscal initiative ($15 billion) failed to spur much growth under simultaneous conditions of high inflation and stagnant growth, a condition referred to as stagflation. Labor unions pressed Carter and the Democrats to implement an expansive industrial policy (subsidies, trade protection, job training, expanded R&D) focusing on the most threatened sectors of the manufacturing economy (cars, steel, textiles, etc.), similar to policies Germany and Japan had followed since the 1950s. The Administration and the Congressional Democrats, however, refused to support initiatives they considered excessively interventionist and subject to criticism for being antimarket and bordering on socialist planning and protectionism. A comprehensive industrial policy of the kind supported by labor sounded too much like the failed Humphrey–Hawkins full-employment legislation. Instead of focusing on employment, Carter appointed Paul Volcker, chairman of the Federal Reserve Board, where he led efforts to raise the interest rate to more than 19% by 1982, helping to cause the deepest recession up until then since the 1930s.

The failure of the Humphrey–Hawkins Act and other industrial policy proposals symbolize the virtual abandonment of the New Deal economic model in the late 1970s and the emergence of the neoliberal model of a lightly regulated free market, which began in 1978 with the Supreme Court allowing multistate banking and the removal of usury caps. From Carter on, priority was placed on the reduction of taxes and public spending, financial deregulation, and "promarket" trade policies, which stimulated growth of the financial sector and the movement of production to low-wage economies offshore.

The 1970s were the pivotal decade in the shift from the production-oriented, managed capitalism of the postwar era to the finance-oriented, neoliberal political economy that began with Carter. Reagan's election brought the full scale implementation of the neoliberal model, including huge tax cuts (35% reduction in top-end rates by 1986) and accelerated financial deregulation and reduced enforcement, which led directly to the savings and loan industry collapse and $180 billion taxpayer bailout caused by liberalizing loan restrictions. The financial sector grew (profits of 6% in 1970 rose to >20% by 1990), and, as investment in the real productive economy slowed, the trade imbalance also began to grow, domestic production fell, as did R&D investments. Finally, the federal debt exploded from $1 trillion in 1980 to almost $3 trillion by 1990.

Wages began to decline or stagnate, a trend now more than 30 years old, and income and wealth inequality accelerated, seemingly becoming institutionalized in the neoliberal political economy. These trends reflect the largely successful corporate efforts to discipline labor by reducing the bargaining power of unions, a long-standing neoliberal goal. More than 75% of productivity gains have gone to the top 1% for decades, a reversal of the 1945–1975 period when wages tracked productivity gains closely. Private pensions began a 30-year trend of migrating from DB to DC plans, and pension coverage generally declined. Economic growth slowed to lower levels than in the 1970s and far lower than from 1945 to 1970.

The Democratic Party moved further right toward a neoliberal agenda following Mondale's defeat in 1984. As early as 1981, 61 Democrats in the House voted for the big Reagan income tax cuts. The fiscal responsibility theme of Mondale's campaign failed, and the conservative Democratic Leadership Council began to gain steady influence in the Democratic Party. The Democratic Party leadership essentially gave up on the creation of an updated New Deal agenda or any coherent, clear alternative to Reaganomics, or supply-side neoliberalism.

The Administration of George H. W. Bush largely continued the policies of the Reagan era but ended up alienating the conservative base of the Republican Party by agreeing to a tax increase compromise with the Democratic Congress. The income tax increase was agreed to by both parties as a means of slowing the growth in federal budget deficits, which had increased the federal debt from $1 trillion in 1980 to more than $3 trillion by 1990. Bush's acceptance of

the compromise was probably a contributing factor in his loss of the presidency in 1992.

The Clinton Administration adopted a largely promarket policy agenda similar to the Carter Administration's, but Clinton's program was more successful as the economy was boosted by the integration of information technology (IT) into production processes, and stocks were buoyed by an IT bubble after 1995. The Clinton agenda included modest top-end tax increases (to 38.5%) to address the Reagan/Bush deficits; major expansion of open markets trade policies like the North American Free Trade Agreement Treaty; a highly market-based health care reform effort that failed; conservative welfare reform (time limits on benefits and state control of the program); reduced federal expenditures (from 22% to 16.5% by the late 1990s); defense of the Medicare budget, which helped defeat the Republicans in 1996; and finally work on a secret deal to partially privatize Social Security in 1997 led by Clinton's chief of staff Erskine Bowles.

Clinton's tax policies helped create budget surpluses by 1999 and keep interest rates down, which, in combination with improving productivity and the IT stock bubble, spurred employment and temporarily reduced inequality. On the whole, however, Clinton did not reverse the neoliberal trend but in fact further institutionalized the neoliberal political economy.

The Bush II Administration doubled down on the neoliberal policy agenda with major tax cuts in 2001 and 2003, more than 40% of which went to the top 5% of earners. The median tax payer, in fact, paid more in total taxes (payroll and sales) in 2006 (35%) than in 1966 (34%) and much more than the top 1% (34%) and 0.1% (19%). The tax cuts, plus the 2001–2002 recession and increased spending (military, Medicare Part D), led to the return of deficits in 2002. Over $5 trillion was added to the federal debt rather than the $1.5 trillion surplus that had been projected in 2000 for 2009. The recession officially ended in 2002, but the low-interest rate–led recovery generated few new jobs in the private sector (0.05% in 2001–2008), and family income declined by 5.4% from 2000 to 2008, the first-ever decline in income during a recovery. Far more new jobs were created in the public sector (2.5% increase) than in the private sector between 2001 and 2009. Hirsh notes that there was no real economic progress from 2000 to 2009. There was net-zero job growth during this period, which was unprecedented; no previous decade as far back as the 1940s had seen job growth of less than 20%. During the 2000s, economic output rose at its slowest rate of any decade since the 1930s.

Inequality accelerated during the Bush Administration, so by 2007, 43% of all asset wealth was owned by the top 1%, 23.7% of all income went to the top 1% (compared with 9% in 1979), and median income declined between 2001 and 2008. Asset wealth and retirement wealth (pension income and assets) of the bottom 80% also declined with the collapse of the stock and housing markets in 2008–2010, the period of the Great Recession. Although productivity grew by 2.5%–3.0% from 1999 to 2009, 80% of the gains went to the top 10%, mainly the top 1%, as labor continued to lose members and influence.

Low-interest rates (2% or lower), vast Asian savings (generated by trade imbalances), increasingly light financial regulation (Clinton-era legislation plus removal of leverage limits by the Securities and Exchange Commission in 2004), and accumulation of wealth at the top made the financial sector even more dominant (41% of profits in 2007) and risk embracing. The vast expansion of the financial sector was based on the emergence of an unregulated "shadow banking system," including an array of poorly understood derivatives and unprecedented levels of "moral hazard" in the "Too Big to Fail" (TBTF) financial sector.

The real-estate market (beginning with subprime loans in 2006) and the financial sector began to topple in 2007, with the biggest collapse since 1930 coming in 2008. Equities and housing markets lost $14 trillion in value, including a 30%–40% loss in retirement accounts. Global losses exceeded $40 trillion, or almost a full year of global GDP. Markets have recovered about 75% of losses, but accounts are still down by 20% from 2007, and housing values continue to fall.

A bipartisan agreement to rescue Wall Street and the auto industry with massive bailouts helped the country avoid a depression in 2008 and 2009. Along the way (2005) President Bush tried—unsuccessfully—to advance the neoliberal agenda by proposing partial privatization of Social Security and supported Medicare Advantage as a vehicle for Medicare privatization through managed care in the 2003 Medicare Prescription drug legislation.

The Obama Mix of Keynesian and Neoliberal Policies

Barack Obama's election and the increased control of Democrats in Congress in 2008 was

largely the result of growing fear over the state of the economy following the collapse of Lehman Brothers on September 15, 2008. Obama and the Democratic Congress responded to the financial collapse and the recession by supporting the financial bailout and a modest economic stimulus proposal of $786 billion. Obama's economic advisor, Christine Romer, and many others thought the stimulus was only about half of what was needed to reduce unemployment significantly and restore strong economic growth.

The stimulus minus tax cuts (40%) and money to contain state government layoffs came to about $225 billion or less than 2% of GDP, which was far less than the 6% decline in the economy. The stimulus helped stop unemployment growth at 10% but was not enough to spur a major increase in job openings. China's stimulus, on the other hand, was 13% of GDP with a heavy focus on infrastructure and green economy investments. China soon resumed a 10%+ growth rate.

The financial sector bailout continued beyond TARP with Federal Reserve loans, loan guarantees, and the purchases of toxic assets amounting to several trillion dollars in total value. The bailed-out banks, however, did not resume lending for investment growth and business expansion. Bailout money was used mostly for proprietary trading (back to the casino economy) and hoarding. Economic growth remains weak (1.5%–2.5%) and far less than the 4%–6% of past recession recoveries. The housing market continues to stagnate or decline as sales stall, foreclosures increase, and no substantive help is yet available for mortgage holders, 25% of whom are underwater. According to Hirsh (p. 293):

> The financial system itself had been deemed too big to fail. Even more significantly, no one in power in Washington dared to broach the fundamental issue: the extent to which the dominance of the financial markets within the capitalist system during this freewheeling era—the fact that finance had come to hold the whip hand over labor and the manufacture and production of "real" goods and services—had corrupted capitalism itself. Banking had once served industry and services. Even in the robber-baron era, when J. P. Morgan and a few other lions of Wall Street controlled a lot of the real economy, they had sought to add value; they had created growth and jobs. Now finance had become the end, and the real economy was subservient to financial services, which had become one of the country's most vibrant exports. And it wasn't just venture capital finance any longer but casino-style finance.

Obama and the Democrats largely adopted a deficit reduction/austerity-oriented agenda in late 2009 by proposing a reduction in discretionary spending, creating the Bowles–Simpson Deficit Commission and expressing support for containing Social Security and Medicare costs. The Republicans have gone further and now support through their long-range budget (the Ryan Plan), the privatization of Medicare, big cuts in Medicaid, lower taxes on the wealthy, and huge cuts in discretionary programs except for the military. Their budget offers little real deficit reduction, just the dismantling of the New Deal and Great Society welfare state, a central goal of the neoliberal agenda for three decades.

Keynesian policies may have helped to prevent the Great Recession from becoming a depression, but they now stand largely discredited by the media and the D.C. policy pundits, which is dismaying in face of the fact that, according to Madrick (p. 403):

> TARP, the fiscal stimulus, and the Federal Reserve's aggressive loans and guarantees, known as quantitative easing, it should be reemphasized, did stop the collapse and shorten the recession. The Keynesian response did work. By 2009, Wall Street was back and operating, and the recession was declared ended by the summer of that year, having formally started in late 2007. As 2010 came to a close, the question was whether the lesson of government stimulus was learned well enough. Business lending remained weak, consumer spending did not revive strongly, and the number of new jobs created was not nearly what was needed to absorb a growing workforce. That the economy did not recover more rapidly was the consequence of the federal government not doing enough. As the nation entered 2011, still more federal spending and further aggressive Federal Reserve action to reduce rates and stimulate lending were needed. Adequate medicine was not forthcoming.

The Obama economic agenda contains few qualitative changes in the neoliberal political economy and seems to ignore two fundamental truths: (a) rising (now falling) home values could not substitute for stagnant/declining wages that both political parties seem to accept as a result of globalization (25% of all wage earners are now under or close to the poverty level) and (b) debt-based and asset-inflated consumption cannot substitute for wages and productive investments that are required to sustain long-term growth, broad prosperity, and retirement security. Growing inequality is a major reason for the ascendency of finance and the

decline of the real economy. According to Hirsh, (p. 309):

> Because of the income inequalities that had been created globally, money was not being efficiently and effectively used around the world. The growing income gaps meant that the rich had too much money, more than they could possibly spend, while the poor who were far likelier to spend it had too little of it. This kept global demand and therefore economic growth down. Another chilling effect on growth was that countries that had been burned by "hot money"—like the East Asian nations in 1998—began hoarding large reserves to protect them from the next attack. That too was money that went unspent and reduced economic growth. And all of it was in service to Wall Street's demands.

Absent fundamental changes in current neoliberal economic policy, not much on the horizon can be relied on to generate and sustain significant growth. There are no credible signs at this point of big transformative technological breakthroughs in the foreseeable future and little to offset the growing ecological and demographic challenges to growth. The financial bailouts have done little to stimulate growth, other than in financial sector profits and bonuses. And it looks as if austerity policies are deepening their hold on policy makers here and in Europe, though not yet in China and other Asian economies.

The 2010 election of a more conservative, Republican-controlled House and a larger, more powerful Republican minority in the Senate has deepened the policy stalemate of recent years. At best, this is likely to produce a very tenuous, stationary-state economy with low job and wage growth, slowly declining living standards for middle class and working people (continuing trend), environmental erosion, and sharpening policy conflicts. It looks as if we will continue to have a finance-dominated neoliberal economy with the same limited productive investment that we have had over the last 30 years.

If these trends hold, we are probably headed for a lost decade (another one?) like most of Japan's last two decades. This scenario appears to be what some economists are now beginning to refer to as "the new normal" of low economic expectations for most families. A complacent acceptance of the new normal would seem to preclude any initiatives to help working families recover from the devastating effects of the Great Recession, which has been especially hard on minority families. A recent Pew research project found that median Hispanic family wealth fell by 66% between 2005 and 2009, whereas Black family wealth fell by 53%, Asian-American family wealth fell by 54%, and White family wealth by 16%, reflecting the much greater housing equity held by White families compared with minorities; equity that is certain to have declined since 2009 with the continuing fall in housing values (Kochar, Fry, & Taylor, 2011).

These trends are likely to complicate efforts to strengthen our already-threatened system of retirement security and increase conservative pressure for Social Security and Medicare-benefit cuts and foster their continuing campaign to privatize both programs. The Republican tilt among many older workers could help support these neoliberal priorities even in the face of growing reliance on these programs for basic economic security in retirement.

An Alternative Policy Agenda for Achieving Economic Security

The authors of all five books strongly support an antineoliberal, ambitiously progressive (neo-Keynesian) strategy and oppose such neoliberal priorities as cuts in social insurance programs, softening of reformed financial regulations (which are already too vague and porous), scaling back of health reform (already too corporate oriented), or returning private lenders to the student loan program. Their alternative agenda would draw on something like the following policy menu: (a) stronger financial regulations (ban the most dangerous financial derivatives) impose stronger leverage limits and revisit Volcker and Greenspan proposals to break up (TBTF) banks; (b) a well-funded infrastructure bank; (c) a public employment program for those out of work longer than 27 weeks; (d) more federal money to help limit cuts in state and local government spending; (e) a comprehensive housing assistance program based on premium reduction for underwater mortgages; (f) increased Social Security payments for low-income beneficiaries and a new federally guaranteed private pension system to replace current DC plans; (g) a carefully designed industrial policy targeting large investments in green technology, biomedical (genetics) products, and other science and technology research and development opportunities; (h) new trade policies favoring domestic production; and (i) a federal loan guarantee program focused on the trillion+ dollars currently held by banks. This program would be a low-risk method to get loans flowing again into productive investments, especially small businesses. These loans

could be at least partially targeted to high value-added production priorities like green technology. Finally, the United States desperately needs (j) a new, more equitable and efficient revenue system based on higher tax rates, reduced tax expenditures favoring the wealthy, a financial transaction tax, and a progressively designed value-added national sales tax tied directly to funding our public health care programs, which should evolve into a universal single-payer system by 2020.

This alternative policy agenda reflects the fact that undoing 30 years of neoliberal damage to U.S. and global economies and restoring retirement security for future retirees will require new global and domestic economic models. Changes in the global economy are needed to reduce trade and currency imbalances, which means reversing U.S. trade policies from Carter on and implementing a comprehensive industrial policy targeting high value-added industries. These changes also should include the eventual creation of a new global currency architecture designed to prevent currency manipulation and to achieve some version of Keynes's old proposal to punish countries with artificially low currencies and high trade surpluses.

The progressive policy agenda cannot be achieved without the development of a domestic economy based on a new public–private mixed model of regulated capitalism (modernized Keynesianism). This model should reverse corporate-sponsored "Winner Take All" policies that overwhelmingly favor the wealthy and preclude any possibility of sustainable and equitable growth. As Hacker and Pierson show, these neoliberal policies and the benefits they generate for corporate elites were largely a result of bipartisan decisions made by policy makers from both parties; decisions shaped by political power, not technological or globalization imperatives, as shown by the different policy paths taken by other western nations and many Asian countries. These countries have not adopted the neoliberal economic model of financial domination, slow wage growth, cutbacks in public programs, and a reduced role for the state in the economy, except to cover corporate losses.

Can these more equitable progrowth changes in the global and domestic economies be achieved without a more equal relationship between the ordinary working public and corporate elites? Probably not, and without it retirement security will continue to erode. This is the fundamental economic, political, and moral challenge of our time and affects everything from retirement security to climate change. In reality, there appears to be no way to "tinker" our way out of our long-developing economic bind. Even the Great Recession and its continuing repercussions have not been enough to generate qualitative changes in economic policy and institutions. The hold of neoliberalism, reinforced by the results of the 2010 election and escalating political conflict over economic policy and the role of the state, was sufficient to prevent an effective short-term program designed to restore even the pre-2008 economy, which was characterized by slow economic growth, little job or wage growth, and ballooning budget and trade deficits. More fundamental change was essentially shelved when financial reregulation was watered down in 2010, the (TBTF) financial organizations got bigger and more dangerous, and little was done to shift the balance of economic power from finance to investment in the real economy.

In fact, the policy debate has tilted toward austerity and growing attacks on the public sector including the retirement security stalwarts Medicare, Medicaid, and Social Security and reduced funding for education, research and development, and infrastructure, sources of future economic growth. This difficult reality leaves authors of the books featured in this essay without much short-term hope for progressive change. They all predict more stress on the middle class and continuing retirement security erosion. It may take another economic collapse and an existential threat to the U.S. economy and its role in the world to force qualitative change.

Such upheaval may be a necessary if not sufficient condition for significantly reducing the corporate hold on our "winner take all" politics, which are largely driven by the deep and growing concentration of political and economic power and the increasing exclusion of the public from the policy-making process. Globalization, advances in IT, and voter confusion and manipulation have made corporate dominance easier, but growing corporate control of tax, spending, and regulatory policies is largely a political matter that can be remedied only through a renewal of democratic politics, which has occurred at intervals throughout American history from the Civil War to the New Deal to the Civil Rights Movement.

Rolling Back Financialization

The efficacy of a "new" politics in restoring economic security for workers and retirees will depend

on an ability to roll back the extreme financialization of the U.S. and global economies. Financialization has accelerated the concentration of wealth and income at the very top of the U.S. class pyramid and massively diverted money away from investment in the productive economy into speculative investments in the $600 trillion derivatives markets, especially in the United States. Firms have, however, continued to invest in the expansion of productive capacity in developing countries where many U.S. manufacturing jobs and sales have migrated over the past 30 years.

Effective efforts to curb an excessive financial sector, which is once again absorbing nearly 40% of all corporate profits, will require that policy makers address the origins of financialization. Since the mid-1970s, the corporate response to declining profits was organized around deregulation and free trade policies. Since the 2008 financial collapse and the Great Recession, it has finally become evident that these policies have benefited only the top 10% (mainly the top 1%), hollowed out much of the U.S. economy and undermined sources of future growth.

As labor unions lost members, and power and jobs were moved offshore, workers' wages and benefits (including pensions) declined or remained stagnant after 1980 and have never recovered, undermining the capacity of workers to maintain consumption from wages. This gap was increasingly filled by consumer debt, which rose from 60% of annual income in 1979 to more than 130% by 2008 and has fallen only to about 115% since then. This vast increase in debt played a major role in the huge growth of the financial sector. Financialization also was spurred by the movement of money by the economic elite from productive to speculative investments, which tended to generate higher profits through the regular production of asset bubbles, such as occurred in IT stocks in the late 1990s and the mortgage markets between 2000 and 2008.

The collapse of the housing bubble and consequent federal bailout of (TBTF) financial institutions caused the worst recession since the 1930s, which most members of the corporate and political elites now propose to contain through deep cuts in the main public retirement programs (Social Security, Medicare, and Medicaid) and many important programs in the discretionary portion of the federal budget. These kinds of cuts are likely to slow the already low growth rate even further and disappropriately disadvantage working families and retirees, who have been hurt the most by the Great Recession, without much affecting the wealthiest who benefitted most from the bailouts and recovery in the financial sector.

Financial resurgence, however, through speculation and expanded investments abroad is not likely to stimulate much growth and employment within the domestic economy, as high household debt and stubbornly high levels of unemployment continue to suppress consumer demand, which drives 70% of the U.S. economy. The politics of austerity appear set to keep the federal government from spending enough to stimulate the economy and help state and local governments avoid continuing layoffs. As noted earlier, manufacturing, which has historically driven recoveries from recession, has declined for 20 plus years (from 20% of jobs in 1980 to 10% today), as production and sales continue to grow abroad, greatly limiting this sector's capacity to be a source of future growth. Growth in the service sector also has slowed considerably over the last 10 years, and most of the growth since 1980 has been in relatively low-wage/benefits jobs.

In the absence then of an epoch-making technological breakthrough comparable to the railroads and automobiles of previous eras (and none is now foreseeable), little job growth in the public and private sectors and a resurgent financial sector diverting resources into relatively unproductive uses, what sources remain for strong, sustainable growth? This is a scenario for what some economists and journalists now refer to as the "new normal" of slow growth, mainly of low-paying jobs and deepening threats to the future of retirement security.

According to Dumenil and Levy, the only plausible exit from this kind of Keynesian low-growth trap is through a constellation of policies and political moves similar to those that finally rescued the U.S. and global economies from the last economic downturn caused by a financial crisis—the 1930s depression. As shown in Madrick's description of the rapid response to the 2008 financial crisis, the U.S. government (including the Federal Reserve) implemented several Keynesian initiatives to restore financial stability and stimulate the economy. These initiatives were largely successful in preventing a repeat of the financial collapse and deep depression of the 1930s, but far less successful in restoring economic growth and reducing unemployment.

The failure to implement more rigorous reforms in the finance sector has allowed financial institutions

to return to many pre-2008 practices. This is where we are likely to remain until sufficient political will emerges to fundamentally reform the financial sector by returning to the regulatory structures that governed finance from the 1930s until the late 1970s, in whatever modernized form is most functional.

In the view of Dumenil and Levy, which is central to each of the books discussed here, the state will not be able to take the policy steps necessary, including the package of recommended strategies described earlier, to restore strong, equitable growth until the financial sector is decisively reined in and resources wasted in financial speculation are diverted into productive investments in both the public and private sectors. They do not think this kind of policy shift will occur until there is a major shift in political forces similar to the kind of changes in the governing alliance that occurred during the Depression and afterward when corporate management gained considerable autonomy and shifted its main allegiance from the class of finance capitalists to what they call the "popular classes," or working population. Corporate management then was able to cooperate with union leaders, high-level managers in the federal government, and key political leaders to contain the influence of finance and reduce the role of speculation and the concentration of wealth and income. This center-left coalition was then free to build the kind of balanced, equitable, and productive economy that led to the growth of the vast middle class and a qualitative reduction in poverty during the post-WWII period of managed capitalism.

Conclusions

The central message of this essay and of the books being reviewed is that the current political economy of increasingly extreme inequality, slow growth, high unemployment, diminished middle-class prospects, and eroded retirement security is not a recent development springing from the 2008–2010 Great Recession. These realities also are not the result of objective forces like globalization and technological advances beyond the control of democratic political institutions, which retain the capacity to protect the interests of workers and retirees. These economic realities are the product of neoliberal policies initiated in the 1970s and expanded with only brief interruptions for the next 30 years. Economic and political elites used these policies to successfully increase corporate power and profits, mainly within financial institutions.

These policies and their highly inequitable effects can be changed through a renewal of our democratic institutions. The irony, however, is that the kind of democratic renewal necessary to curb the excesses of financialization and rebuild a broadly beneficial, productive economy is likely to depend on the emergence of sharp divisions within the corporate elites and a shift in political alliances toward a center-left coalition involving powerful corporate leaders and what Dumenil and Levy call the popular classes of workers and retirees. With the decline of labor unions, the rise of corporate influence within the Democratic Party, and the far-right Tea Party dominance of the Republican Party, the economic interests of the "popular classes" are now largely unrepresented in the policy process and are likely to remain so for the foreseeable future. This weakness will likely continue until the next, even more destructive collapse of finance and a repeat of the Great Recession that may more closely resemble the Great Depression. Many members of the Congressional Tea Party caucus, whose corporate sponsors seem to have lost control of in the fight over raising the federal debt ceiling, embrace threats to the economy that might strengthen their efforts to reduce federal spending and starve such beasts as Medicare and Social Security.

Our best hope may be that these events will generate a surge in mass protest and the emergence of an alliance between the popular classes and a powerful group of corporate managers committed to scaling back the finance sector and to a progressive economic agenda of expanded investment in the real economy, increased employment, and strengthening an eroding retirement security system for boomers and future generations of retirees. In other words, we need an alliance of the kind that we might imagine emerging in some form between the Occupy Wall Street movement, if it takes hold within the broad middle class, and maverick corporate leaders like Warren Buffet who strongly support higher taxes for the rich.

Such an agenda would look a lot like the policies described earlier and the Congressional Progressive Caucus agenda, which has received very little media attention and has no significant corporate or Democratic leadership support but is supported by the public in most polls. The potential efficacy of the progressive agenda is demonstrated by the superior economic performance of several

European countries, including Germany and the Nordic states, that run their economies and social welfare systems with policies very similar to those recommended here and by the Progressive Congressional Caucus.

Implementation of austerity policies at every level of government is likely to keep the U.S. economy in a stationary state at best, and the failure to reregulate finance effectively may accelerate the arrival of another, more catastrophic collapse of the financial sector. In the absence of strong, well-organized sources of progressive power these developments in the economy could lead to the further consolidation of power on the right. According to Dumenil and Levy, (p. 333):

> This is what the popular struggle, underpinning the action of President Roosevelt, prevented during the interwar years, while in other countries, as in Nazi Germany, the Far-Right option prevailed. The consequences would be dreadful, meaning repression nationally and propensity to perilous military undertakings internationally . . . .

This ominous scenario, however, is less likely than a refinement of the existing center-right coalition of the wealthiest finance capitalists, corporate managers, and the political elite, aimed at extending a neoliberal global economy favorable to low-cost production and high profits for at least another decade or two. According to Dumenil and Levy (p. 334):

> These underlying configurations at the top of U.S. social hierarchies also provide robust foundations for a joint strategy of the upper classes, whatever the exact distribution of powers and the consequences on income patterns. This means a significant potential for change, though not in favor of the popular classes. Thus, overall, social trends point to the establishment of a new compromise at the top of the social hierarchies, a Center-Right rather than Center-Left social arrangement.

This "least worst" scenario for a "new normal" neoliberal political economy may be the most likely outcome, given the economic history of the last 30 years and its emerging regime of harsh fiscal austerity. A thorough understanding of that history, however, and a realistic recognition of the fact that human affairs are not governed by forces beyond our control can help us imagine and achieve a more just and ecologically sustainable world. After all, what is to be gained by limiting our hopes and actions to what can be achieved only within the parameters of neoliberalism? Our current reality and the history of how we got here should tell us that the answer to this question leaves little alternative but to press for a far more progressive political economy and renewal of our democracy.

The complexity of the history and current realities of our political economy is reflected in the range of material available in the five books described in this essay. Neither of these books nor any of the several others on the U.S. economy that I have read since 2007 provides a truly comprehensive account of our 30-year embrace of neoliberalism, the Great Recession, and its continuing aftermath. Many of these books, however, including these five, do a good job of describing and analyzing one or more dimensions of our political economy and how we got to where we are today. In other words, most of these books have additive value and, when taken together, begin to provide much of the information needed for a comprehensive understanding of our recent economic history and where we may be headed from here.

For example, Stein's *Pivotal Decade* is an outstanding analytical history of the origins of neoliberalism in the 1970s. *Winner Take All Politics*, by Hacker and Pierson, is a detailed description of how corporate influence grew in the 1970s and became dominant over the following 30 years through campaign spending, lobbying, and the use of intellectual resources ("think tanks"). Madrick's *The Age of Greed* is a carefully crafted exegesis of the economic worldview and policy priorities of several important private and public figures who have played major roles in our political economy for 40 years, and Dumenil and Levy's *The Crisis of Neoliberalism* is a fine analysis of class conflicts and alliances from the New Deal to the Great Recession and provides a more comprehensive theoretical perspective on this history than any of the other four books. Hirsh's book, *Capital Offense*, is the most plainly and passionately written of the five books and more of a journalistic account of how our policy makers became the servants of corporate power. It is also the book I would recommend reading first from among the five; it is an efficient and captivating introduction to the still shocking events of the last several years and of their origins on Wall Street and in Washington, DC.

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