Abstract: In approximately the last four decades, neoliberalism has reigned as the structure of Western economies, chiefly the United States. However, neoliberal capitalism and an environment synonymous with deregulation, “free” markets, and limited government intervention in economic matters has repeatedly led to crises and crashes in history. The Scourge of Neoliberalism examines the actions of past presidential administrations since 1980, and explains how neoliberalism’s allure has kept it afloat for so many years.

Key words: neoliberalism; neoliberal capitalism; deregulation; economics scourge

Introduction

While there have been many books written on neoliberalism over the past number of decades (e.g., Noam Chomsky, David M. Kotz, Alan Greenspan, Adrian Wooldridge, Wendy Brown, Gerard, and William Davies), Jack Rasmus’s book, The Scourge of Neoliberalism (2020), addresses neoliberalism from a less-acknowledged perspective, mainly through the lens of historical practice and the deep material forces driving modern neoliberal policy. The book further chronicles the development and utilization of neoliberal ideology for social and economic engineering, as reflected over the decades through the eyes of various presidential administrations from Reagan (1981–1989) through Trump until 2020, when the book was published.

In order to gain a better understanding of the neoliberal economic structure that we are used to, Rasmus chooses to summarize and expose the neoliberal system he dubs “a wolf in sheep’s clothing” first. To know the core tenets of the neoliberal
ideology, it is vital to distinguish neoliberalism from its namesake of traditional economic liberalism.

While both ideas support the notion of free markets or minimal government intervention, neoliberalism did not inherit everything from its predecessor. As Rasmus explains, neoliberalism makes ideas like individual choice and responsibility its driving force, disguising common-sense ideas as a cover for greed and selfishness. For example, neoliberalism promotes corporate welfare (not the common welfare), extreme deregulation, unchallenged monetary spending, and a monetary view on what provides value in society (as opposed to a human-centric system).

Rasmus then provides the historical context relating to how neoliberalism emerged. He explains that capitalism is a system that is inherently susceptible to “natural restructuring” when presented with major crises. In other words, the institutions that make up its components at any one period in time need to be adjusted in order to survive in the face of a crisis. Thus, capitalism itself is not a static or unchanging system, but rather one that slowly evolves with societal change. Three such structural eras occurred within the twentieth century: the World War I era, World War II and its initial recovery, and the emergence of neoliberal policy.

Before Neoliberalism

The prevailing economic structure in the United States and broader Western world before the rise of neoliberalism was that of regulated capitalism. British economist John Maynard Keynes’s *The General Theory of Employment, Interest, and Money* (1936) had revolutionized economics by focusing on ideas like aggregate demand being the root of employment and the essential role of government spending in lifting a floundering economy. Keynesian economics as it came to be called was a prime motivator for New Deal policies aimed at alleviating the Great Depression by boosting government spending and work programs to spur the fledgling economy. The laissez-faire economic environment of the 1920s, which had led to the Great Crash in the first place, was replaced by increased regulation of corporations and checks on recklessness in the financial sphere.

As a result of the Great Depression and post-World War II economic boom, a structure of strong unionization, public investment, and significant wage gains were at the forefront of the mid-century American economy. The dollar was king, and the United States was increasing its trade prominence across the globe. However, by the 1960s, America’s export dominance was in decline, and the appreciation of the dollar was restrained by the gold standard. Capitalist profits had also stagnated in that decade, and the country was falling behind other world powers. As a result, people were looking for a new economic system to help alleviate their problems.
Thus, the neoliberal reformation of the 1970s and 1980s began. Rasmus explains that since capitalists and producers wanted to re-up their profits, they started turning on unions and workers’ interests. Furthermore, the inflation and oil supply crises of the 1970s were creating a stagflationary economy, causing large-scale distrust in government and its ability to handle economic affairs. This wave of discontent and sense of stagnation under regulated capitalism rode on the shoulders of Ronald Reagan’s presidential aspirations, contributing to his election in 1980.


Rasmus summarizes the core attitude and policy changes that neoliberalism put into practice to discuss Reagan’s major initiatives. At its core, it is thought that the neoliberal reformation was meant to regain the West’s (i.e., USA-Reaganomics, UK-Thatcherism) economic dominance that had declined in the 1970s. However, the ideas and implementation of neoliberalism came at a significant cost to the domestic working class and foreign investment alike.

Free-market capitalism, similar to the laissez-faire attitudes dominant in the 1920s, was the centerpiece behind the Reagan Administration’s fiscal policy. It promoted corporate welfare by decreasing taxes on the wealthiest households and businesses, in the hope that extra capital would flow down the economic chain (a.k.a. supply-side economics). Additionally, the neoliberal doctrine saw the freezing of the minimum wage, reduced tariffs, over-accommodative fiscal policies, deregulation for American businesses, and the mass de-unionization of American workers through offshoring (among other things).

Reagan’s economic policies, also known as “Reaganomics,” involve high military spending, low social welfare spending, and cuts to Medicaid and Medicare. Cutting social welfare spending, running budget deficits, and increasing the debt ceiling allowed Reagan to significantly raise military spending to pay for and win the Cold War, and cut corporate and high-net-worth-individual taxes.

Rasmus concludes that fiscal policy created accelerating inflation in the economy during the Reagan years, leading the Federal Reserve under Paul Volcker to raise interest rates significantly to decade highs and resulted in two recessions in the first five years of the 1980s. The goal was to siphon liquidity out of the system and prevent the disastrous effects associated with hyperinflation that was seen in the preceding decade.

This monetary policy was eventually effective in bringing down inflation and interest rates, as well as aiding the US dollar to have one of the longest appreciation periods in post-war history in the 1990s. However, by the early 1990s with Reagan’s successor George H. W. Bush, these policies led to one of the most severe real estate recessions on record.
Cleanup and Consolidation (George H. W. Bush 1989–1993)

By the time George H. W. Bush was inaugurated as president in 1989, neoliberalism and the core tenants of Reaganomics had been well ingrained into the American economic system. Bush made it clear he wanted to continue this economic philosophy. However, he was preoccupied with having to fix the economic and social consequences associated with the Reagan Administration. Reagan left office with one of the largest and growing national budget and debt levels, financial and banking institutional instability (pending financial crises and recession), trade deficits, and other socio-economic problems.

In 1990, the Gulf War began with Iraq’s invasion of Kuwait, and the Bush presidency (along with neoconservative backers) was preoccupied with the Middle East war; and by 1991, the cost of the war totaled $61 billion. However, $54 billion of that was paid for by military allies, leading to only $14 billion in additional defense spending, with no new taxes (Rasmus 2020).

In 1992, during the Bush Administration, the North American Free Trade Agreement (NAFTA) was one of the first neoliberal multilateral free trade agreements that was passed in 1994 by President Bill Clinton. It led the Bush Administration to expand and improve its relationship with Canada and particularly Mexico, as reflected in the Maquiladora free trade zone along the southern border of the United States. NAFTA allowed free trade and capital to flow between the United States and Mexico, increasing exports (particularly cheap imports) from Mexico.

This offshoring of the manufacturing base benefited Mexico by raising industrial production, employment levels, and standards of living. The United States benefited through low inflation due to cheap imports. The agreement devastated manufacturing towns and facilities, particularly in the industrial heartland, Midwest and upper East Coast of the United States, leading to a new underclass of permanently unemployed individuals, falling real wages, and dependency on government welfare.

Bush claimed he was not going to raise taxes with his famous statement, “read my lips.” However, worsening deficits and debts forced Bush to raise taxes during his second year as president. The creation of the 1990 Tax Act raised taxes on the upper class from 28% to 30%, and raised the Alternative Minimum Tax (AMT) from 21% to 24%. Unfortunately, this tax increase mostly hurt the working class, as the costs associated with the higher taxes were transferred onto common goods like gasoline, tobacco, alcohol, telephone, and Medicare payroll (Rasmus 2020).

These taxes were not enough to pay for the debt and deficits within the fiscal balance sheet, as they continued to climb. The 1990 Budget Reconciliation Act created a new “paygo” rule for social security, requiring any entitlement spending.
to be offset by cuts in discretionary spending, leading to caps placed on social security payouts.

These neoliberal responses were not enough to mitigate the negative effects associated with Reagan and Bush presidential policies as reflected in the recession of 1991–1993. Although this recession was relatively short, it had a significant impact on creating a class of permanently underemployed, and illustrated a major flaw in neoliberalism: its inability to deal with labor market dislocations.

As Rasmus writes, the administration that followed George H. W. Bush’s will differ slightly from its predecessors in economic approach but still contributes to the growth and advancement of neoliberalism.

Expansion of Neoliberalism (Clinton and the Democrats, 1993–2001)

Rasmus does not shy away from only criticizing the first Republican presidents of the neoliberal era; Democrats were no less accountable when it came to developing and further advancing neoliberalism. In 1992, Bill Clinton won the presidential election over George Bush Sr. by moving his party to the right of center, replacing the moderate Republicans along the political–ideological spectrum. Clinton was the first Democrat to take office since the rise of neoliberalism and carried out his term differently than Bush and Reagan. The first thing Clinton did was to enact policy attempting to dismantle the social welfare state.

For example, need-based welfare provisions, such as food stamps, lost tens of billions of dollars in funding, yet median household income continued to rise while poverty for ethnic minorities dropped at a faster rate than any other point during the American neoliberal era. Clinton also continued Bush Sr.’s policy direction of promoting international free trade agreements, making US trade with China and Mexico even easier with lower tariffs. This exacerbated the hollowing out of the manufacturing base in middle America, the Midwest, and the upper East Coast now known as the Rust Belt.

Unlike Bush and Reagan, Clinton came into office with the intention of raising taxes. Clinton raised the top personal income tax rate from 30% to 36% and targeted high consumption taxes on gasoline and Medicare. Clinton needed to raise $300 billion for the savings and loan bailouts; however, through his tax hikes he ended up raising more tax revenue than needed (Rasmus 2020). This led to a budget surplus, the first in decades, and allowed the Treasury to start retiring government debt, driving down interest rates, and allowed Clinton to implement tax cuts from 1997 to 1998. By the turn of the millennium, neoliberalism was alive and well in government policy, and the succeeding administrations were about to double-down on the ideology.
Hyper-Neoliberalism (George W. Bush, 2001–2009)

After Clinton’s eight years as president, George W. Bush was inaugurated into office in 2001 after a close and divisive election. Bush had similar political and policy styles as Reagan and his father Bush Sr., yet was more pronounced in his approach. Bush took neoliberalism to the next level by attempting to implement policies that had traditionally failed in the past.

Bush cut taxes more frequently than any other president. In his first three years in office, he cut taxes every year, leading to a total federal tax revenue loss of $3.4 trillion during his eight years as president. Bush’s tax cuts, Rasmus explains, did not target the poor, or goods and services such as Medicare or gas tax cuts; they specifically targeted the rich. Bush cut taxes for businesses and investors, and created a windfall for US corporations in the stock market. Bush also froze the minimum wage for his first six years as president, leading to an exacerbation in the wealth gap between rich and poor.

These policies alone could have worked; however, they were coupled with the highest military spending in US history. After 9/11, Bush sent thousands of troops into the Middle East (Iraq and Afghanistan) to combat the alleged war on terror. It is estimated that the total cost of the wars was over $3 trillion, and it created a permanent presence for US troops in the Middle East, see Stiglitz and Bilmes (2008).

At its highest, the defense budget reached $824 billion; it was the first and only time in US history where the government simultaneously raised spending and cut taxes. In 2008, Bush tried one last time to cut taxes to alleviate the impending recession. This time consumer tax cuts were intended to stimulate collapsing household incomes and economic production, but to no avail, the damage had been done. At this time, a young senator from Illinois was beginning to make waves in the 2008 presidential campaign with messages of systemic change and advocacy for average Americans suffering under the burden of the financial crisis. America changed course from eight years of Republican rule, and neoliberalism had to face its biggest existential crisis since its inception.

Neoliberal Collapse (Barack Obama, 2009–2017)

Obama is the second neoliberal Democrat after Clinton, as they both governed from the right of center as Rasmus proposes. Due to the financial crisis of 2007–2009, Obama inherited the worst US economy since President Franklin D. Roosevelt in the Great Depression (1929–1938).

Obama handled the economic crisis well by using over-accommodative fiscal policy through Congress and the Treasury, as well as in conjunction with massive over-accommodation through quantitative easing conducted by the Federal
Reserve. The Federal Reserve’s balance sheet grew from $850 billion in 2007 to $2.2 trillion by 2008, $2.8 trillion by 2011, and $4.5 trillion by 2015.\(^1\)

Obama was able to handle the financial crisis and the need for massive fiscal spending by cutting high military expenditures from the Bush Administration. Obama was able to cut taxes by $288 billion mostly for businesses, with less of a focus on consumers and the rich. Obama’s non-military spending in his first two years as president was $418 billion; by his second term, he ended stimulus and high spending, and extended the Bush tax cuts once again. His recovery plan was supported by extremely low-interest rates, providing stimulus for consumption by working-class households (OECD n.d.).

These policies succeeded, as Obama was able to spend $787 billion in stimulus. However, over $1 trillion in tax revenue was accumulated in 2011 and more in 2013, due to social spending program reductions. According to the US Bureau of Labor Statistics, for six years the unemployment rate fell from 9.9% in 2010 to 4.9% by 2016; the Dow Jones Industrial Average rose from 12,700 in 2008 to 16,500 by 2016, up 30%; and according to the Federal Reserve of St. Louis, Gross Domestic Product (GDP) rose from −4% in 2008 and averaged 3% per year from 2011 to 2016 (BLS 2022).

Obama created a steady economy through a mix of neoliberalism, regulation, and Keynesian policy to address the second worst recession in American history. However, Obama’s policies left us with federal debt doubled, structural budget deficits, underemployment, low labor participation rates, and geopolitical instability, as Rasmus laments. This social tension would soon lead to an extraordinary and altogether unexpected turnaround in administrations: the election of Donald Trump, a New York billionaire with no political experience who ran an incredibly controversial campaign.

**Neoliberal Restoration (Donald Trump, 2017–2021)**

Being quite critical of him, Rasmus narrates that Trump had the same vision as Reagan, Bush Sr., and Bush Jr., as reflected by corporate, high income, and investor-focused tax cuts in 2017, but also provided income tax cuts across the board. Trump offset these tax cuts by significantly reducing provisions for the social safety net and income security. During Trump’s presidency, he consistently tried to repeal Obama’s policies, specifically ObamaCare. Although Trump said he and his Republican colleagues had a plan to replace ObamaCare with a better privatized health care system that would drive down prices for medication and health care, it turns out there was no plan.

Unlike many other presidents, due to his middle America constituencies, Trump was not pro-free-trade, began a trade war with China, antagonized the
European Union, pulled out of the Trans-Pacific Partnership (TPP), and renegotiated the North American Free Trade Agreement (NAFTA). The US auto industry that Obama had worked hard to salvage was one of the industries that experienced severe economic setbacks.

This was reflected in supply chains being globalized and the majority of parts are now being manufactured and imported from Asia, Mexico, and Latin America, and cars from Europe. This approach constituted a new and updated approach to the neoliberal ideology.

According to Sloan, ProPublica and Podkul (2021), the total estimated cost to the US economy during the Trump Administration is between $3 to $5 trillion over the first two years. Up until when The Scourge of Neoliberalism was published, the Trump Administration’s turbulent implementation of neoliberalism had witnessed yet another recession upon the onset of the COVID-19 pandemic. The future of neoliberal capitalism still remains to be seen in the aftermath of Trump’s neoliberal restoration and subsequent pandemic crisis.

Conclusion

In The Scourge of Neoliberalism, Jack Rasmus was able to portray and narrate how the neoliberal system has shaped our economic life for over the past 40 years. Being highly critical of this system, Rasmus picks out the key economic policies and events that occurred during the sequential presidential administrations and dissect them to highlight origins of modern neoliberalism through historical implementation.

From this book, it remains clear that neoliberalism’s inherent flaws (i.e., little regulation, tax cuts, giving too much power to corporations, etc.) have caused multiple recessions and crises that have tested and continue to confront the strength of this system. From examining the philosophies behind different policy decisions of both Republican and Democratic presidents, we can gain a better insight into why neoliberalism has resulted in such economic inequality and malfunction in its history.

Using this knowledge, Rasmus hopes to pass on the true history and reality of our current economic world in aspirations of reforming neoliberalism or replacing it and its economic consequences entirely in the decades to come.

Note

References


