

BOOKS

Neoliberalism from Reagan to Clinton

by Gregory Albo

Michael Meeropol, *Surrender: How the Clinton Administration Completed the Reagan Revolution* (Ann Arbor: University of Michigan Press, 1998), 377 pages, cloth \$34.50, paper \$19.95.

Recent presidential elections in the United States have obfuscated, more than clarified, the social divisions of American society. While the Democrats project a well-worn image of protecting working Americans the Republicans declare the need to defend traditional American values. In reality, the consensus between the two parties on the superiority of American government and the beneficence of capitalism rules any challenge to the status quo politically out of bounds (even the candidacy of longtime policy activist Ralph Nader was seen as beyond the pale). The contest between Albert Gore and George W. Bush—a contest between patrician familial dynasties that could only occur in the United States—was no exception.

The Republican and Democratic conventions were long commercials for American capitalism and imperialism paid for by American corporations. American prosperity from the New Economy was continuously celebrated throughout the campaign. The dark side to the recovery that threatens its long-term viability has been less noted: record trade deficits creating the largest debtor nation in history, crushing corporate and individual debt levels, an enormous speculative financial bubble (seen vividly in the astonishing drop of the NASDAQ), and shocking income inequality that has continued to worsen. The problems of the poor, we are told, can be remedied by the “compassionate conservatism” of the

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Republicans, or the "new liberalism" of the Democrats. We are reassured that a "soft landing" engineered by the Federal Reserve will resolve pressing economic imbalances. The policy agenda is totally dominated by the consensus of the political and economic elites that there is no alternative to neoliberal policies supporting globalization under U.S. military domination. The neoliberal hegemony over public policy warrants careful scrutiny, for it is central to American capitalism, and to the dilemmas confronting the left inside the United States and beyond.

Another Look at Clintonism

Michael Meeropol's study of U.S. economic policy from Reagan to Clinton, *Surrender: How the Clinton Administration Completed the Reagan Revolution*, makes a timely contribution to such an assessment. Meeropol, a professor of economics at Western New England College and researcher for the Center for Popular Economics, argues that a major counterrevolution has transpired in American economic policy since the 1980s as the reformist Keynesian New Deal was overturned in favor of the revanchist neoliberal "social contract with America."

The book's central indictment is that President Clinton, in submitting his welfare, budget, and tax bills from 1995-1997, "signaled surrender: the Reagan revolution was going to achieve its major goals." The Reagan neoliberal program of small government, tax cuts, deregulation, free trade, and monetarist financial policies was more than just consolidated. In signing the Welfare Reform Bill of 1996 and the subsequent 1997 budget compromise, Clinton broke the back of the New Deal. The government commitment, however modest and poorly implemented, to protect the poor against the worst ravages of the market was thus ended. A central redistributive bargain crumbled as well: the top 20 percent of income earners in the United States would gain after-tax relief, while the bottom 20 percent of Americans would further suffer the marginalization of deepening poverty. The bulk of the text is devoted to a compelling examination of the neoliberal "revolution in economic policy" against postwar Keynesian demand management and welfare policies. Meeropol emphasizes the policy continuity between Reagan and Clinton over the chimerical differences of presidential campaigns.

Meeropol's story of the right-wing ascendancy begins in 1979 when Federal Reserve Chairman Paul Volcker began one part of the economic counterrevolution against the New Deal. Volcker imposed the stringent monetarist anti-inflation policies that persisted into the 1990s. Formally, the Federal Reserve simply moved from the so-called targeting of interest rates according to aggregate demand conditions, to concentrate on controlling the aggregate movements of the money supply and letting the markets determine the rates. As a consequence of the tightening of money supply growth the prime rate rose to 12.5 percent by 1981, with the Fed fund rate eventually peaking at 19.1 percent. Rather than oppose such monetary policies, as administrations had done so often in the past, Reagan supported the Fed's stance. According to Meeropol, monetary policy was now safely in the hands of neoliberal ideologues and financial interests.

Reagan's tax and budgetary policies put in place the other part. In contrast to the sentiments of the New Deal, Reagan propounded that "the most important cause of our economic problems has been the government itself." The cure prescribed combined tax cuts to increase market incentives and cuts in overall government spending (with the crucial exemption of the military). The Budget and Reconciliation Act of 1981 began a long series of program cuts, and expanded means testing of entitlements, while introducing across-the-board tax cuts that favored the redistribution of income to the rich. The key measure, whose legacy continues to this day in a process of competitive taxation pressures between jurisdictions, was the Recovery Tax Act of 1981. It cut personal income tax brackets, particularly in the highest brackets, and accelerated capital depreciation, substantively "shifting the burden away from capital income." Meeropol details other measures of the neoliberal counter-revolution of Reagan's first term: tax bracket indexation, deregulation of monopolistic industries, reversal of equal employment initiatives, reduction of welfare benefits, and cuts to food stamps and other welfare supports.

In Reagan's second term structural deficit problems, from higher unemployment and increased military spending, reversed some of the tax-cutting supply-side zeal. The Reagan administration pursued so-called revenue enhancements. The 1986 Tax Reform Act,

for example, actively increased taxation on capital gains (which Clinton would later reverse). An attempt was also made in 1986 to legislate a balanced budget by fiat through the Gramm-Rudman-Hollings Balanced Budget and Emergency and Deficit Control Act, but the strongest version of this legislation ran into political and constitutional obstacles. Reagan also made only minor progress in extending means testing to Social Security. The net effect of the Reagan Revolution, in Meeropol's view, was "that the climate in Washington relating to the role of the federal government...had begun to change."

Meeropol's empirical assessment of the claims of the New Right that Reagan's policies had reversed the American economic decline and stagnation of the 1970s is compelling. The monetarist policies implemented by former Federal Reserve Chairman Paul Volcker and his successor Alan Greenspan, for instance, were based on the contention that inflation was caused by financing government fiscal deficits through monetary expansion. But this position clearly fails to account for the simultaneous tight monetary policy, fall in inflation and rise in budgetary deficits through the 1980s. The anti-inflation fight squeezed wages, increased inequalities, and strengthened the Wall Street *rentier* class, while military spending kept fiscal policy expansionary and served as the real basis for the Reagan recovery. Moreover, Meeropol shows that the supply-side measures of tax cuts, fiscal restraint and deregulation did not serve to reverse, but rather added to, the symptoms of economic decline in terms of capital spending, GDP growth, productivity, fiscal balance, and competitive position. As measured from business cycle peaks, the neoliberal capital spending incentives did not stimulate investment trends in the 1980s above the rates of the 1970s; productivity growth continued its long-run decline; and higher unemployment was combined with lower capacity utilization. In other words, the characteristic features of economic stagnation continued during the Reagan years, offset only by credit expansion. The emperor of the New Right had no clothes.

Reagan did not complete the neoliberal revolution as his maniacal defense spending, his anti-tax stance, and a congressional Democratic majority still defending Social Security in the 1980s, combined to block the balanced budget initiative. George Bush,

however, could not avoid the growing fiscal constraints, and in the 1990 Deficit Reduction Act he compromised with Congress allowing spending cuts to be coupled with tax increases. Despite this breach of neoliberal orthodoxy, Gulf War spending, and increased welfare expenditures made necessary by the 1990-1991 recession, added to the deficit. It was the "interaction of recession, slow job growth and slow income growth" that characterized the Bush years and not, as Clinton welfare reforms would later suggest, the "unwillingness of individuals to work." Arguing against the presumption of a Bush betrayal of Reagan, Meeropol notes that it was Bush who pushed NAFTA through, sustained the Uruguay Round leading to the WTO and slapped controls on government spending in the midst of recession. Only the fanatical could claim that the Bush presidency was neoliberalism betrayed.

During the 1992 presidential campaign Clinton trumpeted against the policies of Reagan and Bush, supposedly challenging neoliberalism and the prevailing sense of American decline. As Meeropol writes, Clinton's campaign exploited the stagnation in the standard of living, middle-class feelings of vulnerability, and the fiscal crisis. Clinton proposed his alternative agenda in his 1993 *A Vision of Change for America*: fiscal stimulus in terms of infrastructure spending and investment tax credits; improved education and training; increased taxes on the wealthy coupled with extended tax credits for lower income workers; and deficit reduction partly through program cuts. This uneasy policy mix of reducing taxes and the deficit while increasing investment in education and infrastructure could only be reconciled with the Clinton rhetoric of breaking with neoliberalism by cutting defense expenditures and increasing taxes on the well-off. Still, Meeropol observes that the macroeconomic balance was a contradictory package of "trying to stimulate the economy and reduce the budget deficit at the same time." Something would have to be surrendered.

In fact, from the start Clinton's budgetary policy fixated on the deficit and combined major spending cuts and minor tax increases. His monetary policies did not alter at all the direction that Greenspan had long established of moving to monetary restraint with a relatively high level of unused capacity and unemployment. The first order of business, as Meeropol records Clinton's advisors

as saying, was to "satisfy the bond market." Indeed, with Greenspan firmly ensconced as an economic tsar in Washington, Clinton left neoliberal monetary policy completely untouched. The second step was the deficit reduction package of the 1993 Budget Reconciliation Act. Here, too, Clintonism made its peace with neoliberalism. When congressional wrangling blocked tax increases, the weight of deficit reduction had to fall on cuts to program spending. Meeropol writes, "The Reagan Revolution had succeeded in shackling even a reform-minded Democratic president supposedly working with a like-minded Democratic majority in Congress."

The main liberal measure of Clinton's first year was expansion of the earned income tax credit for low income earners, a policy that was in any case consistent with the neoliberal emphasis on market incentives. The central liberal policy plank to reform the health care system came, of course, to naught. With the Republicans gaining control of Congress with the 1994 Contract with America platform, Clinton's surrender to the right was complete: health care reform was scrapped; welfare was devolved to the states; and from 1995 on Clinton traded back and forth with Republicans over the favored path of deficit reduction and smaller government. Even the fiscal surpluses of Clinton's second term did not overturn the neoliberal trajectory established during these years. The 1996 Welfare Reform Bill, for instance, turned over welfare responsibility to the states, as initially proposed in Reagan's 1982 New Federalism speech. But more importantly it placed two-year time limits for the able-bodied to be on welfare, effectively making employment even more a wholly individual responsibility. The 1997 budget plan for deficit reduction further locked in balanced budgeting against counter-cyclical stabilization policies. The New Deal and Keynesianism were dead in American politics, sent to the policy graveyard by Clinton's Democrats. "The Clinton Administration," Meeropol concludes, "has as its legacy an abject surrender to an unelected group of people who represent the financial sector of the economy."

If Clinton's presidency embraced neoliberalism, how do we account for the economy's performance? Meeropol observes that Clinton's welfare and budgetary policies have yet to be tested by recession, and the implications of the welfare reforms are thus not

fully known. He suggests that there is more fragility to the New Economy than the business press would have us believe. By historical standards, the recovery from the early 1990s slowdown has been unexceptional: the business cycle upswing phase has been the weakest of the postwar period with GDP growth in the 3-4 percent range as opposed to a postwar average near 5 percent. Per capita GDP performance of the United States across the 1990s has been near the average of the advanced countries. The length of the upswing has, indeed, been impressive, as has been growth and productivity performance in the last two years at the top of the business cycle. Yet these trends must be set against the depth of the prior recession of the early 1990s, and the domestic and international credit mechanisms that have sustained growth, especially the increased liquidity after the Asian crisis of 1997 that sent huge volumes of capital into the United States. Indeed, the negative savings rate sustaining U.S. growth has meant unprecedented growth of domestic personal and business credit as well as record current account deficits.

Similarly, the real wage growth that has occurred since 1995 only partly reverses the astonishing decline in living standards that American workers have faced since 1973. These gains, too, pale in comparison to the real annual wage gains across the postwar period. The story is the same for the drop in unemployment through the 1990s, which even in the 4-5 percent range remains above postwar unemployment figures. In any case, the unemployment figures conceal as much as they reveal: the growth of involuntary part-time work, underemployment, and contingent work all serve to increase labor reserve pressures impacting on labor effort and the rate of exploitation. Amazingly the New Economy has spelled the end of the forty-hour week. Americans now work longer hours daily, weekly, and yearly, than workers in any of the other advanced capitalist states. Growing inequality is evident: the average incomes of the poorest quintile of Americans have dropped below levels of the 1970s, while the richest 1 percent of Americans have after-tax incomes roughly equal to the bottom 100 million together.

These developments have left traditional reformers, notably in the labor movement but also in progressive think tanks such as the Economic Policy Institute or the Jerome Levy Institute, uneasy with Clintonism's whole-hearted embrace of the market. For his part,

Meeropol vigorously defends the state's role in stabilization policies and in providing some protection against market failures, and he warns that it is unlikely that mere expansionary monetary policies by the Fed could save the U.S. economy from the inevitable recession that follows business cycle peaks. Meeropol's alternative "high-wage, high-employment strategy," moreover, invokes controls over financial movements, public sector capital spending, incomes policies, a "democratized" Federal Reserve, labor and environment standards in trade agreements, and wider involvement in corporate governance. But it needs to be said that even such a return to Keynesian economic strategies will have to confront both the Wall Street high-technology power complex and the Democratic Party. The political and economic landscapes have been fundamentally altered by the New Right and a new bag of economists' tricks will not resolve the contradictions of capitalism.

Beyond Clintonism

Meeropol's analysis of the liberal surrender of American economic policy to the mavens of Wall Street and the dogmas of neoliberal economics is thorough and detailed. He demonstrates a free market policy continuity extending from the New Right policies of Reagan to the new liberalism of Clinton. This pulls the rug from under European social democratic leaders—Blair in Britain, D'Alema-Amato in Italy, and Schroder in Germany in particular—and their love affair with the American model. Meeropol's type of analysis should also lead to some strategic rethinking on the part of the AFL-CIO and many American progressives persisting with the old direction of automatically supporting the Democratic Party. American liberalism, like European social democracy, has become incorporated within the international pressures of capitalism favoring neoliberal policies. The progressive competitiveness strategy of expanding training in high value-added sectors of new technology that Clintonism initially proffered as an egalitarian alternative to neoliberalism has, as Meeropol shows, surrendered to the Reagan revolution. The new presidency of George W. Bush—Bush the Younger so to speak—has been remarkably comfortable with the Clinton economic legacy. The central policy disputes in Washington occur totally on the terrain of neoliberalism: the pace

and degree of budgetary and tax cutting and debt reduction. The Clinton surrender is now a complete rout.

The November 1999 demonstrations in Seattle, and others that have followed in its wake, have, for the U.S. left, been among the most significant acts of resistance against neoliberalism in general, and Clintonism in particular. Michael Meeropol's damning indictment of the economic direction of the Clinton presidency demonstrates that nowhere is the need for a new movement more pressing than in the United States.

Fifty Years Ago in **MONTHLY REVIEW**

"If the American ruling class is sincere in its belief that this country is menaced by external dangers—and we believe that there is no question that it *is* sincere—the reason is not that any other *nation* is threatening the United States. On the contrary, as we have seen, in the sphere of strictly *international* relations the threats are all the other way around. The menace which weighs on the minds and souls of the American ruling class is the expansion of the socialist *system* which takes place not through any of the means known to power politics but through internal revolutions in countries where the old order is rottenest and weakest."

—The Editors, "The Hope for Peace,"
Monthly Review, April 1951, p. 517.