

The Last Gasp of Neoliberalism

John P. Watkins, Professor of Economics
at Westminster College

and

James E. Seidelman, Distinguished Service Professor of Economics and Former Provost
at Westminster College

jwatkins@westminstercollege.edu

cseidelman@westminstercollege.edu

Presented before the

Association for Evolutionary Economics

Allied Social Science Association

Atlanta, Georgia

January 4, 2019

Abstract: The ideas of both Thorstein Veblen and Karl Polanyi shed light on understanding the last gasp of neoliberalism. The last gasp refers to Donald Trump's abandonment of free trade, long considered a corner stone of the neoliberal agenda, and his overt attacks on democratic institutions. In Trump, neoliberalism's attempt to overcome the gridlock of liberal democracy has revealed its fascist leanings. Both Polanyi and Veblen warned about the trend towards fascism. Trump got elected, in part, by filling the void left by the factioning of neoliberalism, in part by the injustice felt by people in rural areas, those with stagnant incomes, males, and others. Trump has transcended the neoliberal agenda, approaching market relations from the point-of-view of the fight. The emergence of a predatory culture, in both the domestic and international realms, resembles the cultural outlined in Veblen's *Theory of Business Enterprise*. Trump's actions reveal the need to extend Polanyi's idea of social protection given the the negative effects of modern technology and Trump's efforts to limit some regulatory agencies. Changing demographics and the adverse reaction to Trump's fascist leanings may yet see the emergence of a new progressive era, suggesting, at least, that Trump represents the last gasp of neoliberalism.

Key words: Veblen, Polanyi, Neoliberalism, Fascism, Double-movement

JEL Classification: B52, F6, K2

The ideas of both Thorstein Veblen and Karl Polanyi shed light on understanding the last gasp of neoliberalism.¹ The last gasp refers to Donald Trump's abandonment of free trade, long considered a corner stone of the neoliberal agenda, and his overt attacks on democratic institutions. Accusations of voter fraud, calling unfavorable news "fake news," references to the press as "the enemy of the people," calling for the prosecution of political adversaries, failure to criticize white-supremacist groups, and other comments undermine democratic institutions, setting Trump apart from previous advocates of neoliberalism. Other policies, however, continue the neoliberal agenda: cutting taxes, particularly to corporations, dismantling regulations, and undermining institutions that protect human beings and nature from market forces.

The election of Donald Trump marks a watershed in the evolution of neoliberalism and the effort to recreate a market economy, "an economy governed by prices and prices alone" (Polanyi [1944] 2001). Neoliberalism originated in the 1960s and 1970s with the erosion of America's status in the global economy. In the 1980s and 1990s, a structural shift from industrial capital to financial capital led to outsourcing of manufacturing and deindustrialization. This shift, combined with social movements to extend equal rights to marginal groups, women, and minorities evoked a populist reaction among many white, blue-collar, and Tea Partiers, among others. Trump promised to reverse the shift from industrial capitalism to financial capitalism, to

¹ Neoliberalism is a political and economic philosophy espousing economic freedom and laissez faire policies as the best means of achieving economic prosperity. As David Harvey observes, "Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and advanced by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices" (Harvey 2007, 2).

undo the social-movement agenda, and to attack any elites or institutions that support free trade, open borders, government regulation and fiscal responsibility.

In Trump, neoliberalism's attempt to overcome the gridlock of liberal democracy has revealed its fascist leanings. Polanyi's observations made years ago appear prescient:

The fascist solution of the impasse reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm. The economic system which was in peril of disruption would thus be revitalized, while the people themselves were subjected to a reeducation designed to denaturalize the individual and make him unable to function as the responsible unit of the body politic. (Polanyi [1944] 2001, 245)

If socialism represents extending democracy to the economic sphere, then preventing socialism requires ending democracy. "The mutual incompatibility of Democracy and Capitalism is almost generally accepted to-day as the background of the social crisis of our time" (Polanyi 1935, 391). Nancy MacLean (2017) argues that "ending democracy" has long been part of the neoliberal agenda. Trump, however, has made attacking democratic institutions explicit.

Polanyi's warning was anticipated by Thorstein Veblen in the final chapters of *The Theory of Business Enterprise*. As Douglass Dowd noted summarizing Veblen's message, "if business is to avoid socialism of one sort or another it will be able and inclined to do so only by supporting and, for a while, embracing fascism, of one sort or another." (Dowd 1978, xvii).

The paper proceeds as follows. The first section addresses how Trump got elected, in part, by filling the void left by the factioning of neoliberalism. The second section examines the neoliberal agenda and Trump's efforts to transcend that agenda, approaching market relations

from the point-of-view of the fight. The third section examines the emergence of a predatory culture, resembling the cultural outlined in Veblen's *Theory of Business Enterprise*. The final section addresses the need to extend Polanyi's idea of social protection, considering Trump's efforts to extend the market by limiting the power of certain regulatory agencies.

How Did Trump Get Elected?

Why did so many voters support Trump? Why did the neoliberal hegemony collapse? There are several reasons. First, the obvious reason is economic. Trump promised to provide jobs and reverse declining and stagnant incomes endured by many blue-collar workers. Trump blames globalization for the job loss, a viewpoint echoed by Peter Navarro, Trump's Director of the National Trade Council. Navarro claims that China has taken advantage of the free-trade model to develop its economy. "China's hyper-rate of economic growth is export driven; and the ability of the Chinese to conquer one export market after another, often in blitzkrieg fashion, derives from their ability to set the so-called China Price" (Navarro 2007, 2). The China price refers to China's ability to undercut the prices of most other countries. Navarro points to China's advantages: lack of environmental and safety laws, lack of unions; a predatory industrial policy focused on import substitution and protectionism; the indiscriminate theft of technology and copyright infringement. Trump's solution: level the playing field for American firms by eliminating or reducing social protections and impose tariffs on Chinese imports.

Second, as Anne Mayhew observes, there is a sense among many of Trump's supporters of the injustice imposed by the urban elites. Many rural people feel marginalized. "These people are, however, deeply angry about what they see as a system in which an urban elite governs with both intent and effect to deprive those who live in small towns and on farms of what should rightly be theirs" (2017, 32). As Mayhew notes," these people had reached a not unreasonable

conclusion that regulation was applied to them but not to the big firms” (Mayhew 2017, 31). Rural people are not ideological; they are not committed to neoliberalism. Rather, they desire policies that will enable them to earn a living resembling that of their predecessors, in ranching, mining, and manufacturing.

Third, long before the 2016 election, neoliberalism had evolved into two distinct movements. Hillary Clinton represented what Nancy Fraser calls progressive neoliberalism, a movement originating in the U.S. with Bill Clinton; most of the Republican candidates running against Trump represented reactionary neoliberalism. “In its U.S. form, progressive neoliberalism is an alliance of mainstream currents of new social movements (feminism, anti-racism, multiculturalism, and LgBtQ rights), on the one side, and high-end “symbolic” and service-based business sectors (Wall Street, Silicon Valley, and Hollywood), on the other” (Fraser 2017a, 131). In contrast, reactionary neoliberalism

... was the formula that allowed Christians evangelicals southern whites, rural and small-town Americans and disaffected white working class strata to coexist, however uneasily with Libertarians, Tea Partiers, the Chamber of Commerce and the Koch brothers plus a smattering of bankers, real-estate tycoons, energy moguls, venture capitalists and hedge fund speculators. (Fraser 2017b, 52)

Trump offered a voice to people ignored by progressive and reactionary neoliberalism, people in rural areas, those lacking a college degree, and those whose incomes have stagnated. Despite differences regarding social issues, both groups sought to deregulate the economy, foster financialization, and promote free trade. “What fell by the wayside was the rust belt—once the stronghold of New Deal social democracy, and now the region that delivered the electoral

college to Donald Trump” (Fraser 2017a, 131). As Fraser points out, “with the menu limited to progressive and reactionary neoliberalism there was no force to oppose the decimation of working class and middle-class standards of living” (Fraser 2017b, 53). David Zalewski is no doubt correct, that the election of Trump is a “type of protective response” that “may be related to a perceived inability to control economic uncertainty” (2018, 484).

Going into the 2016 election, Progressive Neoliberalism (primarily Democrats and urban elites) and Reactionary Neoliberalism (primarily main-stream Republicans and rural communities) left a gap in the political universe, with globalization and deindustrialization creating low-wage jobs, predatory debt, and declining living standards. Trump jumped in to fill that gap. Campaigning on populist themes, Trump easily defeated a cast of primary challengers and a democratic nominee who barely survived her own nomination process.

The realignment reveals itself in voting patterns. Two thirds of whites without a college degree voted for Trump. Whites with a college degree voted slightly more for Trump and for Clinton; and whites who are non-Hispanic also voted for Trump, as did older Americans and men. This trend continued in the midterm elections, suggesting new fault lines. Women and those with college degrees supported progressives more than men and those without college degrees. The demographics of voters, however, are changing. Assuming non-white are less likely to support Trump and his policies, changing demographics suggest a sea-change in the preferences of voters towards more progressive policies.

Transcending the Neoliberal Agenda

Trump has transcended the neoliberal agenda, retaining some policies, discarding others. The best statement of neoliberal policies is found in Milton Friedman’s *Capitalism and Freedom* (1962). The theme of the book “is the role of competitive capitalism—the organization of the

bulk of economic activity through private enterprise operating in a free market—as a system of economic freedom and a necessary condition for political freedom” (1962, 4). For Friedman, the problem lies in limiting the power of government.² Government exists to protect the rights of individuals, the most important of which is the right to property, a right central to Friedman’s definition of economic freedom. While Friedman avoids an explicit definition, preserving economic freedom entails adopting policies that allow individuals to allocate their property as they choose. Hence, Friedman opposes occupational licensure, laws forbidding racial discrimination (and presumably similar laws forbidding gender and ethnic discrimination), labor unions, and other institutional barriers to free markets. The freedoms of others establish the only acceptable limits to individual freedom.

For Friedman, the market promotes individual freedom and social harmony. He advocates extending the market in all its dimensions: privatizing education and making it competitive, selling off the public lands, and so on. Further, for Friedman, economic freedom provides a necessary condition for political freedom, which Friedman defines as the absence of coercion. According to Friedman, economic freedom enables individuals to commit resources to express their viewpoints.

Trump’s numerous diatribes reveal an ongoing discomfort with political freedom, a discomfort seemingly contrary to the neoliberal agenda. Further, Trump rejects free trade, balanced budgets, and a restrictive monetary policy, all which Friedman advocates. Most significantly, Trump rejects the idea that markets create “cooperation . . . without coercion” (Friedman 1962, 13).

² “The preservation of freedom is the protective reason for limiting and centralizing governmental power” (Friedman 1962, 3).

He embraces a predatory approach to economic relations, both domestically and internationally. “The world is made up of people with either killer instincts or without killer instincts. And the people who seem to emerge are the people who are competitive and driven and with a certain instinct to win” (Trump quoted in Douglas 2017).

Business Enterprise and the Predatory Culture

Trump’s predatory approach to economic relations contributes to the divisiveness of American Culture. Trump’s influence reveals itself in increased hate crimes and intolerance, a divisive government, and a political rhetoric quick to find fault but slow to find solutions. Trump’s appeal to patriotic sentiments and his policy of America first in international relations hauntingly resemble the cultural trends expressed in *The Theory of Business Enterprise*. “Business interest urge an aggressive national policy and business men direct it. Such a policy is warlike as well as patriotic” (Veblen [1904] 1975, 391). And later Veblen writes: “The quest of profits leads to a predatory national policy” ([1904] 1975, 398).

For Veblen, the prime movers of American culture of the late nineteenth, early twentieth centuries were the tradition of natural rights and the machines process.³ Natural rights served to legitimize and extend the rights of corporations to claim resources beyond merely selling goods and services; it extended the rights of corporations to profit through economic sabotage, issuing stocks, disrupting markets, and so on. The machine process standardized production, introducing the era of continuous mass production, enabling corporations to produce more than what the market could profitably absorb. Trump’s pronouncement of America first reaffirms the system of natural rights, notably, the right to property. It is an expression of the right of American

³ “Now, business enterprise and the machine process are the two prime movers in modern culture” (Veblen [1904] 1975, 377).

corporations to profit from the knowledge-base that it has appropriated from the community at large.⁴

Since at least the early 1990s, China adopted modern technology, which combined with low-wage workers enabled it to vastly increase production, provide employment, and increase living standards. American corporations took advantage. Seeking an opportunity to cut costs, American corporations moved production overseas. China, however, lacked a consumerist culture necessary to absorb the increased output.⁵ Free trade provided the solution: export goods, largely to the United States. Both China and Trump recognize the importance of the American market. From Trump's point of view, the answer to stagnant incomes and a loss of jobs lies in redirecting demand inward. As noted, however, the policy involves shifting alliances, abandoning neoliberalism, and engaging in trade wars.

Extending Polanyi's Protective Response

The actions of the Trump administration suggest a needed reconsideration of Polanyi's double movement. Polanyi's protective response refers to the spontaneous effort to protect human beings, nature, and means of production from market forces. "Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones" (Polanyi [1944] 2001, 79).

⁴ Mariana Mazzucato (2015) points out that much of the technology used by corporations were, in fact, developed by researchers funded by US taxpayers.

⁵ Pre-world War One Britain and Germany provide a similar example. British culture developed along-side modern technology such that much of the output produced by modern technology could be consumed. Germany, however, had recently adopted modern technology from Britain but lacked a consumer culture. Instead, to maintain its economy, Germany channeled the increased output into militarism. See (Veblen [1915] 1968).

Social protection stemmed from the *consciousness* of individuals that markets threatened the very fabric of society, expressed in Polanyi's observation that humans, nature, and means of production are fictitious commodities not produced for sale. Individuals formed unions, associations, and personal relations, in part, to protect themselves from market forces that denied them food, shelter, health care, and so on. Protection required addressing the social consequences often ignored, dismissed, or hidden by those who follow Friedman's advice that the only role of the corporation is to maximize returns to stockholders.⁶

Advances in technology, however, create possibilities both for earning profits and causing harm. These advances have consequences beyond the consciousness of individuals, creating uncertainty (See Zalewski 2018). Industrial agriculture, for example, has increased e coli bacteria found in food, undiscernible for people consuming tacos made from pink slime. DDT effectively reduced mosquito populations; DDT, however, also decimated bird populations. People are largely ignorant of the implications of using nuclear power, the vulnerability of the electrical grid, the effects of CO2 and other gasses, the existence of lead in water, the list goes on. The consequences of modern technology often initiated a spontaneous reaction. Continued protection, however, requires specialized knowledge, knowledge the average person lacks, knowledge that regulatory agencies as democratic institutions are charged with finding and acting upon.

In its zeal to cut business costs, the Trump administration sought to gut the budgets of many regulatory agencies. For example, the Department of Energy (DOE) primarily worked on two issues: nuclear weapons and climate change. Following the election, Trump appointed

⁶ “[T]here is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rule of the game, which is to say, engages in open and free competition, without deception or fraud” (Friedman 1962, 133).

Thomas Pyle to head his transition team.⁷ Pyle met with the Department of Energy (DOE) officials not to understand their charge, but to silence those individuals who had attended conferences addressing climate change (Lewis 2018, 40-41). Further, the Trump administration planned to cut the department's budget, unaware that \$30 billion went to oversee the safety of the nation's nuclear arsenal and look for similar kinds of threats abroad. The department also funds research to develop alternative energy sources. Fracking, for example, was partly funded by the DOE. Solar and wind technologies provide other examples (Lewis 2018, 63). In its zeal to deregulate, the Trump administration expressed no interest in consulting with the lead risk-specialist for the Department of Energy, John MacWilliams. As MacWilliams lamented. 'I never had a chance to sit with the Trump people and tell them what we're doing, even for a day. ... There are things you want to know that would keep you up at night. And I never talked to anyone about them' (MacWilliams quoted in Lewis 2018, 56).

Conclusion

American institutions, the 2018 midterms, and vestiges of what remains of progressive and reactionary neoliberalism have firmly checked the rise of reactionary populism as a new hegemonic bloc. Simultaneously, the remnants of neoliberalism and progressive populism are unable by themselves to establish a new hegemonic bloc.

Without a secure hegemony, we face an unstable interregnum with continued political instability. As Antonio Gramsci noted, "the old is dying and the new cannot be born." Nancy Fraser contends the most likely alliance to establish a new hegemonic bloc is between progressive and reactionary populism. That requires, "working-class supporters of Trump and of

⁷ Pyle was the President of the American Energy Alliance, an organization that promotes laissez faire with special concern for energy development.

Sanders to come to understand themselves as allies – differently situated victims of a single rigged economy” (Fraser 2017b, 59). But given the bad blood stirred up by political partisanship and Trump’s rhetoric and politics, such an alliance seems unlikely. Changing demographics and the adverse reaction to Trump’s fascist leanings may yet see the emergence of a new progressive era, suggesting, at least, that Trump represents the last gasp of neoliberalism.

References

- Douglas, John. "Trump: An American Dream." edited by Barnaby Peel: Netflix, 2017.
- Dowd, Douglas. "Introduction to the Transaction Edition." In *The Theory of Business Enterprise*. New Brunswick and London: Transaction Publishers, 1978.
- Fraser, Nancy. "The End of Progressive Neoliberalism." *Dissent* 64, 2 (2017a): 130-140.
- . "From Progressive Neoliberalism to Trump—and Beyond." *American Affairs* 1, 4 (2017b): 46-64.
- Friedman, Milton. *Capitalism and Freedom*. Chicago: University of Chicago Press 1962.
- Harvey, David. *A Brief History of Neoliberalism*: Oxford University Press, USA 2007.
- Lewis, Michael. *The Fifth Risk*. First edition. ed. New York: W.W. Norton & Company 2018.
- MacLean, Nancy. *Democracy in Chains : The Deep History of the Radical Right's Stealth Plan for America*. New York: Viking 2017.
- Mayhew, Anne. "Trump through a Polanyi Lens: Considering Community Well-Being." *real-world economics review* 78, (2017).
- Mazzucato, Mariana. *The Entrepreneurial State: Debunking Public Vs. Private Sector Myths*. Vol. 1: Anthem Press 2015.
- Navarro, Peter. *The Coming China Wars : Where They Will Be Fought and How They Will Be Won*. Upper Saddle River, N.J.: Financial Times Press 2007.

Polanyi, Karl. "The Essence of Facism." In *Christianity and the Social Revolution*, edited by John Lewis, Karl Polanyi and Donald K. Kitchin. London: Victor Gollancz, 1935.

---. *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Press, [1944] 2001.

Veblen, Thorstein. *Imperial Germany and the Industrial Revolution*. New York: The University of Michigan Press, [1915] 1968.

---. *The Theory of Business Enterprise*. New York: Charles Scribner's Sons, [1904] 1975.

Zalewski, David A. "Uncertainty, Control, and Karl Polanyi's Protective Response." *Journal of Economic Issues* 52, 2 (2018): 483-489.