

The neoliberal form of capitalism is no longer viable, in the United States and elsewhere. One possible direction of change is toward green social democracy, while another is a descent into authoritarian nationalism. This article considers the economic factors and class forces that will affect the outcome in the approaching years, along with the lessons for the Left.

Biden's Economic Constraints

David Kotz

What is the likelihood that the incoming Joe Biden administration can be pushed to pursue a progressive policy agenda? An assessment of the prevailing economic conditions in the United States reveals both opportunities and obstacles that the Left will face in its efforts to move policy toward the widely popular agenda of the Bernie Sanders campaign. This article argues that the current condition of US capitalism makes a major change in direction toward progressive policies possible. At the same time, the consequence of a failure to move US policy away from decades of neoliberalism would likely be an even more retrograde future.

Understanding the current economic conditions and the possibilities they generate requires taking account of the interplay of

continuity and change in capitalism over time. Capitalism has taken a series of discrete institutional forms, or “regimes,” over time. The monopoly stage of capitalism arose around 1900, superseding the previous small-business competitive capitalism. After World War II, regulated (or social democratic) capitalism emerged and lasted until the 1970s. Then, around 1980, the contemporary neoliberal form of capitalism arose.¹ In each period, the system remained capitalist but, at a more concrete level, many of the institutions, as well as the dominant ideas, changed from one regime to another.

The institutions and dominant ideas of each previous form of capitalism promoted capital accumulation and economic expansion for several decades, but eventually the contradictions of each form gave rise to a structural crisis in which the existing regime no longer promoted normal accumulation. Such structural crises have brought some combination of prolonged economic stagnation, a falling rate of profit, and heightened economic instability. History suggests that a structural crisis continues until a new institutional form of capitalism emerges that again promotes normal capital accumulation. Hence, each institutional form can be called a social structure of accumulation (SSA).²

During the period in which a regime of capitalism is working “effectively,” it is difficult to change the policy trajectory in a way

1 Some analysts refer to the current phase of capitalism as “globalized” or “financialized” capitalism. In my view, while increased global economic integration as well as an expanded role for financial institutions have been important aspects of the current form of capitalism, the term “neoliberalism” better captures the underlying principles of contemporary capitalism. See David M. Kotz, *The Rise and Fall of Neoliberal Capitalism* (Cambridge: Harvard University Press, 2015): chapter 2.

2 There are several related theories of this process of successive regimes of capitalism, including social structure of accumulation theory and regulation theory. See David M. Kotz, Terrence McDonough, and Michael Reich (eds.), *Social Structures of Accumulation: The Political Economy of Growth and Crisis* (Cambridge: Cambridge University Press, 1994); Michel Aglietta, *A Theory of Capitalist Regulation* (London: Verso, 1979); and David M. Kotz, “A Comparative Analysis of the Theory of Regulation and the Social Structure of Accumulation Theory,” *Science & Society* 54, no. 1 (1990): 5–28.

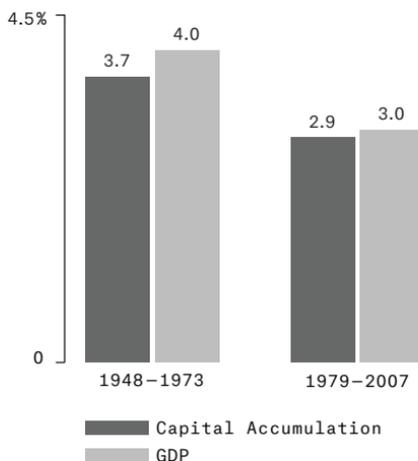
that is inconsistent with the dominant institutions and ideas. For example, once post-World War II regulated capitalism was consolidated in the late 1940s, an alternation of political party control of the administration had little impact on the overall policy direction. In the neoliberal era, the Democratic US presidency of Bill Clinton and Labour Party rule under Tony Blair in the UK extended and deepened neoliberalism, despite promises to the contrary during their respective election campaigns.

Once an institutional form of capitalism enters its crisis phase, however, a change in direction makes its way onto the agenda. The financial crisis and Great Recession of 2008 marked the beginning of the structural crisis phase of neoliberal capitalism. This has important implications for assessing the possibility of moving toward a progressive policy agenda in 2021. In such a structural crisis period, competing proposals for major change suddenly move from the political fringes into the mainstream, as happened in the 1930s and the 1970s. As we have seen in recent years, authoritarian nationalism, which had been marginalized in the developed capitalist countries after World War II, experienced a remarkable rise from the dead in many places, including in the United States with the election of Donald Trump as president on an authoritarian nationalist appeal. At the same time, Senator Bernie Sanders, running as a self-proclaimed democratic socialist, came close to winning the Democratic primary for president in 2016 and in 2020 was a leading candidate for president again.

This article first examines economic developments since 1980 and their consequences that have brought us to the current conjuncture, including the impact of the COVID-19 pandemic. Next we will consider the implications for the ability of the Left to effectively promote a progressive shift in the policy direction in the United States in 2021, as well as the dangers that loom if the Left fails in that effort.

Figure 1. Annual Rate of Capital Accumulation and GDP Growth Rate over Two Periods

Source: US Bureau of Economic Analysis, National Income and Product Accounts, Tables



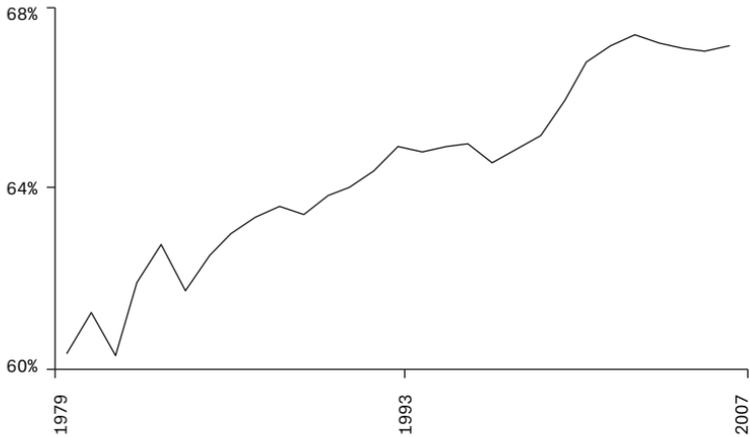
NEOLIBERALISM

The advocates of neoliberal transformation of US capitalism promised that releasing private business from the shackles of government regulation, high taxes, and trade union rules would bring an era of growing investment driving rapid economic growth. Tax cuts for corporations and the rich would “trickle down” by creating jobs and boosting worker pay. Thus, a rising tide would lift all boats. The actual results tell a different story.

Neoliberal transformation did overcome the crisis of the 1970s. For some twenty-five years after 1980, the US economy had long economic expansions — during 1982-90, 1991-2000, and 2001-07 — interspersed with relatively mild and brief recessions through 2007. Inflation was subdued throughout that period and remains so today. However, capital accumulation and GDP growth were only moderate, less vigorous than in the preceding period of regulated capitalism when government and unions had supposedly been strangling the economy, as figure 1 shows.³ The long

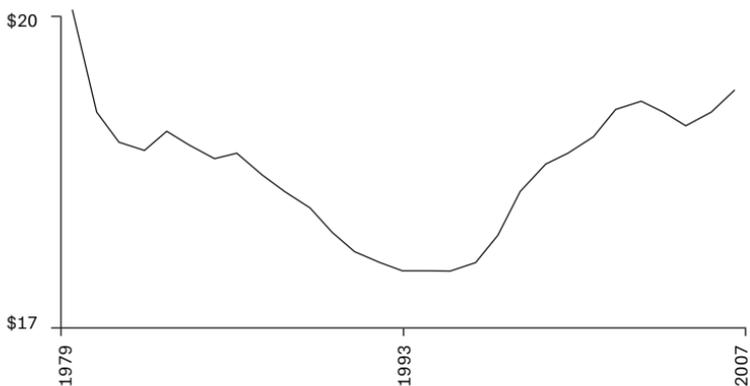
3 Postwar regulated capitalism was working effectively from 1948 to 1973, while the effective period of neoliberal capitalism was 1979-2007 (Kotz, *Rise and Fall*,

Figure 2. Consumer Expenditure as a Percentage of GDP



Source: US Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.5.

Figure 3. Average Hourly Earnings in 2012 Dollars, 1979 – 2007



Source: US Bureau of Labor Statistics. (Note: For production or nonsupervisory workers.) Because the BLS revised the wage series in the late 1980s, there is not a single consistent wage series dating back to 1948. For the overlapping years, the two series move similarly, but the values differ by about 3 percent.

expansions through 2007 were sustained by consumer spending that rose faster than GDP, as figure 2 shows.⁴ The leading role of consumer spending in expansions was possible despite declining real wages (see figure 3), as a series of big asset bubbles in corporate stocks and real estate enabled households to borrow to pay their bills rather than fully relying on their inadequate after-tax disposable income. Newly deregulated financial institutions found ways to lend even to low-income households. This process drove twenty-five years of modest economic expansion.

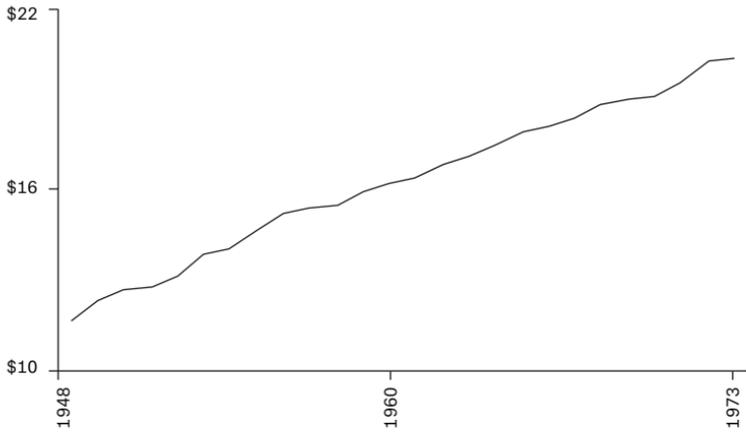
The quarter century following 1980 saw a tide that, far from raising all boats, left working people marooned in the shallows. The neoliberal era brought declining real wages, while CEO pay skyrocketed. Figure 3 above showed that the hourly wage in 2012 dollars was lower twenty-eight years later, on the eve of the 2008 financial crisis, than it had been at the start of the neoliberal era. By comparison, during the period of postwar regulated capitalism, the hourly wage rose steadily from 1948 to 1973, an increase of 75 percent over the period, as figure 4 shows. Figure 5 demonstrates that the heyday of regulated capitalism gave rise to mildly equalizing growth in family income through 1973, but after 1979, growth became sharply disequalizing. The share of income going to the very rich rose steadily through the eve of the financial crisis of 2008, reaching a level approximating that of the eve of the Great Depression (see figure 6). Jobs with good health care benefits, good retirement benefits, and long-term job security became scarce.

Cutbacks in state funding for public colleges and universities shifted a growing share of the cost onto students and their families.

6–7). Capital accumulation, measured by the ratio of annual net investment to the value of the capital stock, is one measure of investment performance. Other measures of investment, such as net private investment relative to net domestic product, also show inferior performance in the neoliberal era.

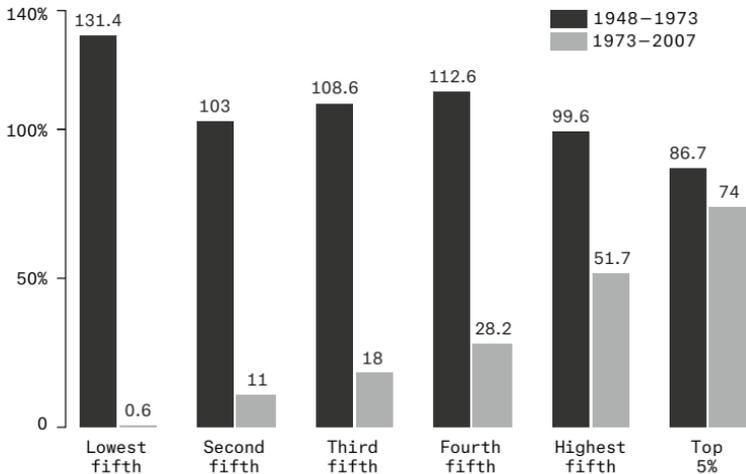
4 After 1979, consumer spending also rose faster than after-tax household income.

Figure 4. Average Hourly Earnings
in 2012 Dollars, 1948 – 73



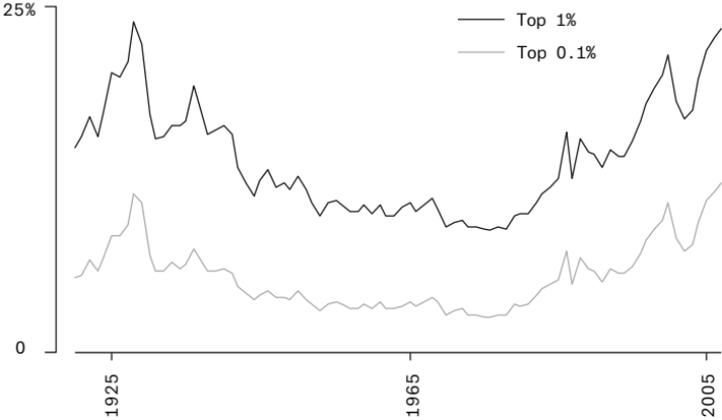
Source: US Bureau of Labor Statistics (Note: For production or nonsupervisory workers.)

Figure 5. Percentage Increase in the Average Real Family Income of Quintiles and the Top 5 Percent



Source: US Bureau of the Census, 2013, Table F-3.

Figure 6. Income Shares of the Richest 1% and 0.1% as a Percentage of Total Income



Source: Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* 118, no. 1 (2003): 1-39.

Outstanding student debt rose to \$1.7 trillion in September 2020, 3.5 times greater than in March 2006 when the Federal Reserve first began reporting that figure. Average student debt for four-year college graduates reached \$42,200 in 2012.⁵ As scientists began to warn of the dangers of global warming, the neoliberal resistance to environmental regulation contributed to a sluggish response. African Americans and other people of color have been particularly affected by the retrograde trends of the neoliberal era. Deindustrialization and cutbacks in public employment both disproportionately affected African American workers, while an era of mass incarceration of black people began.

The above cited trends gave rise to growing anger at the status quo among working-class people, young people, and people of

⁵ US Department of Education, National Center for Education Statistics, 2008/12 Baccalaureate and Beyond Longitudinal Study (B&B:08/12); and federal-reserve.gov/.

color. However, as long as neoliberal capitalism was effectively promoting economic expansion, it was difficult to confront the underlying causes.

STRUCTURAL CRISIS

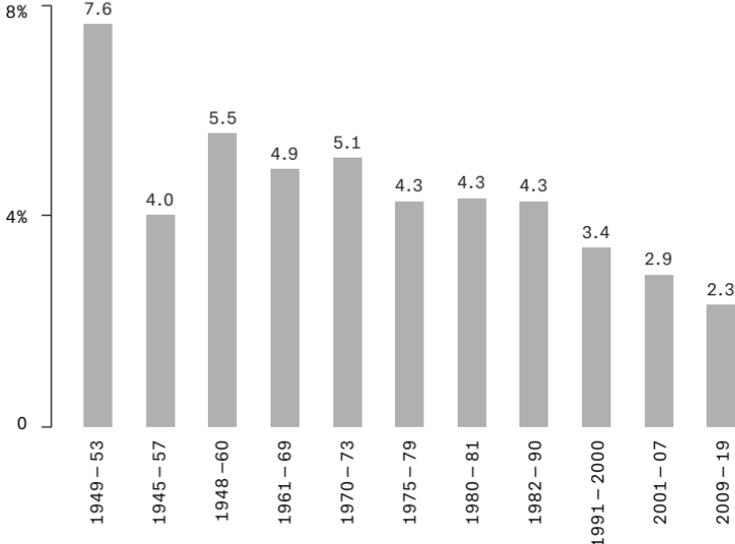
The financial crisis and Great Recession of 2008 marked the end of the period when the neoliberal form of capitalism promoted normal economic expansion. Figure 7 shows the annual growth rate of GDP during recoveries from recessions in the United States since the late 1940s. Normally, such recoveries are relatively rapid, given the presence of ample available labor and unused productive capacity, typically with GDP growth of 4 percent per year or higher. However, the recovery after 2009 stands out, with an annual growth rate of only 2.3 percent. Despite the decade-long expansion following the financial crisis, the GDP growth rate from the pre-crisis peak in 2007 through the peak in 2019 was only 1.7 percent per year. Such data clearly indicate a condition of prolonged stagnation.⁶ Neoliberal institutions are no longer effectively promoting accumulation. The mechanism driving debt-fueled consumer spending, which had made economic expansion possible in the face of wage suppression, ceased to operate after 2008.⁷

The dominant economic ideas of the neoliberal era centered around the claims that the economy needs no assistance from

6 The view that the recent period has been one of economic stagnation in the United States has attracted significant support from mainstream economists. See Robert J. Gordon, *The Rise and Fall of American Growth* (Princeton: Princeton University Press, 2016); and Lawrence H. Summers, "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound," *Business Economics* 49, no. 2 (2014): 65–73. While there is debate about the causes of the stagnation, there is wide agreement that it has indeed taken hold in the United States.

7 For a full explanation of the causes of the current structural crisis and the continuing stagnation, see Kotz, *Rise and Fall*; and David M. Kotz and Deepankar Basu, "Stagnation and Institutional Structures," *Review of Radical Political Economics* 51, no. 1 (2019): 5–30.

Figure 7. Annual Growth Rate of GDP during Recoveries from Recessions



Source: US Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.6.

the government and that state interventions are not only unnecessary but only serve to worsen economic outcomes. The severity of the financial and economic collapse in 2008 led officials and even most mainstream economists to suddenly abandon their cherished beliefs, opting for bank bailouts, extreme monetary expansion, and a large fiscal stimulus, with no concern for the effect on the government deficit. It seemed to be a “Keynesian moment” of recognition that government has a major role to play in the economy, particularly when a crisis strikes.

The Keynesian turn was indeed a “moment” — by 2010, the old economic religion returned in the guise of austerity policy. Once the bankers had been saved and the collapse of GDP had been arrested, neoliberal ideas flooded back. Not just Republican

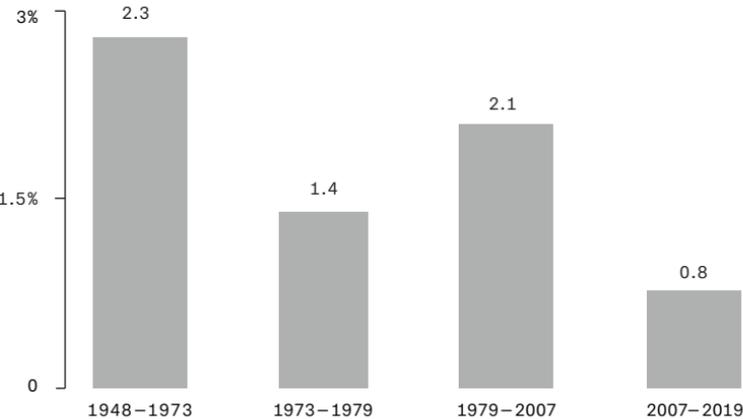
congressmembers but a wide array of pundits warned about impending disaster due to large government deficits and growing public debt, and the major mass media served as a chorus to drive home the warnings. Congress imposed a reversal of fiscal policy in 2010, from stimulus to mainly contractionary policy, which further contributed to the stagnation afflicting the economy since 2008. This reversal of policy reflected the staying power of an SSA, which cannot be superseded quickly when a structural crisis strikes. The transition to a new SSA requires a more or less extended struggle among various groups and classes.

However, the fundamental reason for the prolonged stagnation is the inability of the neoliberal form of capitalism to promote normal accumulation any longer. The clearest manifestation of this is the remarkable disjuncture since 2009 between a high rate of profit and sluggish capital accumulation. Since 2009, the rate of profit has been higher than in any of the previous four expansions since 1980, while the rate of capital accumulation has been the lowest of any of the four expansions.⁸ Some Keynesian economists have argued that a large fiscal stimulus along with continuing monetary expansion would restore normal economic growth, but an SSA analysis suggests that, while such policies would be helpful, they would have to be part of a larger institutional restructuring of US capitalism in order to resolve the stagnation crisis.

Sluggish corporate investment starting in 2008 has brought not only stagnation but also a decline in a key underlying driver of economic prosperity: growth in labor productivity (output per hour). Figure 8 shows the rate of labor productivity growth during the two periods when an SSA was working effectively and the two structural crisis periods since World War II. During each structural

8 David M. Kotz, "The Rate of Profit, Aggregate Demand, and the Long Economic Expansion in the United States since 2009," *Review of Radical Political Economics* 51, no. 4 (2019): Table 4, 531.

Figure 8. Annual Growth Rate in Labor Productivity



Source: US Bureau of Labor Statistics.

crisis, the productivity growth rate slowed down, and the slowdown has been even sharper since 2007. Since 2007, capitalists have largely failed to carry out their “historical mission” of using their profits to invest in superior methods that raise the productivity of human labor. With slow productivity growth, the only means of rapid profit growth is driving down the wages and benefits of workers and/or further reducing corporate taxation.

Trump bragged about the performance of the stock market during his presidency. However, rising stock prices have been driven not by strong economic performance but by a wave of corporate stock buybacks that boost stock prices together with big dividend payouts to shareholders. Rising corporate profits have increasingly gone not to finance productive investment, but to enrich corporate executives as well as other wealthy shareholders.

The sole strong point of economic performance since 2009 was the eventual fall in the official unemployment rate to 3.5 percent at the end of 2019. Trump claimed credit for this, but it resulted from a continuation of the sluggish 2.3 percent per year expansion

that began under Barack Obama. Trump pushed a tax cut through Congress in 2017, which provided a modest fiscal stimulus that brought a temporary one-year bump upward to 3 percent GDP growth in 2018, before falling to 2.3 percent in 2019. The tax cut mainly benefited the rich and large corporations, which led to more corporate stock buybacks rather than a boost in investment. The brief expansionary effect came from a temporary tax cut for households who then increased their consumer spending.

The financial and economic crisis of 2008, and the government's response to it, started a process of radicalization in some parts of the US population. The crisis exposed the fallacies of neoliberal economics. It turned out that the economy was not eternally stable and prosperous as long as the government and trade unions were held at bay. Instead, it is highly unstable and was self-destructing in plain sight. Only a big government intervention in 2008–09 prevented a Great Depression–size economic catastrophe. At the same time, working people were outraged to see the government bail out the bankers, whose highly risky yet highly profitable ventures had brought the economy to the edge of ruin, while little was done for ordinary homeowners as millions faced foreclosure. The stage was set for an uprising.

Many disaffected working people and young people initially placed their hopes in Barack Obama, whose election as president seemed to promise a major change. However, during his eight years in the White House, the retrograde trends affecting wages and job security continued, student debt continued to climb, and global climate change remained on a trajectory to destroy the future. As a candidate, Trump seemed to promise a turn away from neoliberalism, promising a big infrastructure investment program, protection of American industry and American jobs, and even safeguarding social security and Medicare. A consistent authoritarian nationalist program might have begun to overcome the stagnation, as will be

argued below. However, upon taking office, Trump faced a Republican-led Senate made up largely of neoliberals as well as other obstacles to imposing his full program. The Trump administration ended up combining nationalist trade and immigration policies with an intensified neoliberalism on domestic policy, including deregulation, privatization, and regressive tax cuts. This economically incoherent regime has been unable to overcome the stagnation.⁹

PANDEMIC STRIKES

The final important development affecting the policy possibilities in 2021 was the arrival of the COVID-19 pandemic, which struck sharply in the United States beginning in March 2020. The pandemic is having complex effects on the economy and society that are relevant for the possibility of progressive policy change in 2021.

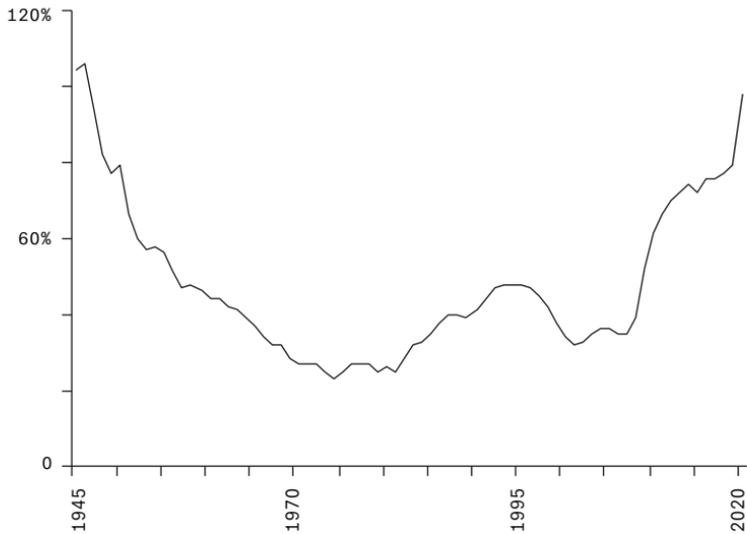
The long economic expansion since 2009 was bound to end in recession at some point, but it was the pandemic that abruptly brought it to an end. The peak of the post-2009 expansion was reached in the last quarter of 2019.¹⁰ By the second quarter of 2020, GDP had fallen from its previous high by 10.1 percent — by far the sharpest decline in GDP since 1946. While a recovery began in the third quarter of 2020, GDP remained 3.5 percent below the previous peak, which would rank it as the second-largest GDP decline since the late 1940s, exceeded only by the 4.7 percent decline in the Great Recession of 2008–09. Early indicators as of this writing suggest that the recovery slowed in the final quarter of 2020.

The unemployment rate shot up to 14.7 percent in April 2020, as 21.8 million jobs were lost in one month, then steadily declined to the still-high rate of 6.9 percent in October. The following month,

9 See David M. Kotz, “The Specter of Right-Wing Nationalism,” *Jacobin*, May 30, 2017.

10 February 2020 was the monthly date of the business cycle peak, but a rapid decline in March pulled the first-quarter 2020 GDP below that of the last quarter of 2019.

Figure 9. Public Debt as a Percentage of GDP, 1945 – 2020



Source: Congressional Budget Office, “An Update to the Budget Outlook: 2020 to 2030,” September 2020.

job market improvement stalled, when the unemployment rate fell by only two-tenths of a percentage point to 6.7 percent. Even that slight improvement was due only to the departure of workers from the labor force, while total employment actually fell. As of November, the US economy had lost 7.8 million jobs since the start of the pandemic.¹¹ Presumably, the severe economic collapse, combined with the Trump administration’s hands-off response to COVID-19 as it infected millions of Americans and killed a quarter of a million of them, contributed to Biden’s election victory.

The huge federal bailout bill of March 2020 was financed by government borrowing. The federal deficit in fiscal year 2020,

¹¹ Employment data are from the US Bureau of Labor Statistics (bls.gov).

which ended on September 30, reached 14.9 percent of GDP, the highest rate since the end of World War II. Outstanding public debt rose to 98 percent of GDP in 2020, close to the high of 106 percent of GDP after World War II, as figure 9 shows.¹²

The sharp economic downturn that began in March 2020 is not of the type that typically afflicts capitalist economies. A capitalist economy periodically generates recessions — that is, reductions in output and employment lasting from six months to a few years — that are rooted in the fundamental features of capitalism. The recession that began in March 2020 is different.

While the underlying cause of a typical recession can be either a declining profit rate or overproduction relative to demand, the downturn begins when aggregate (total) demand falls short of actual output in the private sector, leading to cutbacks in production and layoffs of workers. However, the current pandemic recession began with what economists call the “supply side” rather than a shortfall of aggregate demand. As COVID-19 spread, people stopped going to work, and companies had to close or sharply cut back production due to government-imposed restrictions and shortages of workers and supplies. This drove the remarkably rapid decline in output and employment. However, as workers lost all or part of their income, and companies cut orders of supplies needed for production, aggregate demand also began a precipitous collapse. Pandemic capitalism had managed to produce a more or less “balanced” contraction, with supply-side and demand-side factors acting in unison.

Facing this unprecedented crisis, a panicked Congress quickly passed the CARES Act, a truly massive \$2.2 trillion bailout bill that was signed by President Trump on March 27.¹³ It provided

12 Congressional Budget Office, “Options for Reducing the Deficit: 2021 to 2030,” December 2020; and Congressional Budget Office, “An Update to the Budget Outlook: 2020 to 2030,” September 2020.

13 The official name of the bill was the Coronavirus Aid, Relief, and Economic Security Act.

onetime cash grants to individuals and families, expanded and extended unemployment benefits, loans to small businesses, aid for large corporations, and subsidies for state and local governments. Remarkably, the Republican-dominated Senate passed a bill that gave \$600 per week in special unemployment benefits, which exceeded the previous take-home pay of many newly unemployed low-wage workers. The bill greatly reduced the decline in total demand in the economy and contributed to the sharp rebound in the summer of 2020. It also saved millions of people from being plunged into poverty and homelessness. Some measures of the poverty rate actually declined in the following months. However, administrative problems caused a significant share of the newly unemployed to receive the aid only after a long delay, while many eligible unemployed workers never received their benefits. The support ended gradually over the course of 2020.

The effect of this atypical economic crisis on working people has been uneven. Those who were able to begin working from home — mainly high-income workers — have been largely unscathed financially. Some portions of the manual labor force have continued to work full time, in agriculture, manufacturing, public utilities, and parts of the construction sector, still getting a paycheck but in some industries enduring high rates of infection. Health care workers have faced growing work pressure under dangerous conditions, as have workers in other service sectors deemed “essential,” such as eldercare, home delivery services, and trucking. The greatest increases in unemployment have been in leisure and hospitality (hotels and restaurants); so-called “information” workers (including motion pictures); wholesale and retail trade; and oil, gas, and mining. Newly unemployed leisure and hospitality workers make up fully 25 percent of all newly unemployed

workers.¹⁴ Female and minority workers have been particularly harmed by the economic collapse.

The pandemic recession has hit the bottom line of big corporations hard in many sectors, such as airlines and aircraft manufacturing, while others have prospered, such as online services. As the stock market rose in defiance of the pandemic, the wealth of 650 US billionaires rose by \$1 trillion, a 34 percent increase, from March through November, while many working people have had to raid their retirement savings to survive.¹⁵ More than 110,000 restaurants, or one in six in the United States, were estimated to have closed permanently or long-term by December.¹⁶

POSSIBLE OBSTACLES TO A SHIFT TO PROGRESSIVE POLICY

Many analysts point to the past record of Joe Biden and the Democratic congressional leadership as evidence that nothing progressive can emerge in 2021. That record features support for neoliberal policies, including mass incarceration and harsh policing tactics. However, the past actions of political figures are an imperfect guide to their future behavior in a structural crisis, when a transition to a new SSA is in the offing. History offers examples of political leaders undergoing a sharp change in direction in a structural crisis, under the impact of the crisis and the class forces operating within it. Franklin D. Roosevelt was a mainstream Democratic Party governor who ran for president in 1932 on a program calling for a balanced budget. The first New Deal policies

14 US Bureau of Labor Statistics, Household Data Table A-14, "Unemployed Persons by Industry and Class of Worker."

15 Chuck Collins, "US Billionaire Wealth Surges Past \$1 Trillion Since Beginning of Pandemic," *Inequality.org*, November 25, 2020.

16 Carolina Gonzalez, "Restaurant Closings Top 110,000 With Industry in 'Free Fall,'" *Bloomberg*, December 7, 2020.

were politically inconsistent but, beginning in 1934–35, the New Deal made a sharp left turn. The result was passage of the laws that supported the right to collective bargaining and began to construct a welfare state. In 2021, the Biden administration will take office amid a radically different political-economic context from the one prevailing before 2008.

There is concern that the high level of public debt and the recent large federal deficits will act as a severe constraint on any progressive economic initiatives. Most, if not all, of the policy changes supported by the Left would require stepping up public spending. Austerity advocates warn that the already high debt will impose a huge cost on future generations as they are forced to repay it. Hence, the federal government must sharply cut spending so as to run a budget surplus and thereby begin repaying the debt. Did the large tax cut for the rich and big business in 2017, together with the 2020 CARES Act, poison the well, requiring austerity ahead regardless of who occupies the White House?

The answer is an unqualified no. In the 1930s, John Maynard Keynes demonstrated that, in a recession, the government should increase its spending, financed by borrowing.¹⁷ Keynesian economics entered the textbooks after World War II and became part of the dominant orthodoxy through the 1960s. Then a counterattack, led by University of Chicago professor Milton Friedman along with some younger followers, pushed Keynesian economics out of the mainstream in the 1970s. However, Keynes's basic claims were valid, as economists were reminded in 2008.

A large deficit and a high level of debt are not necessarily a problem in a country such as the United States, where monetary

¹⁷ Keynes's main innovation was to overturn Say's Law, an orthodox belief that a market economy cannot have a shortage of total demand since "supply creates its own demand." Karl Marx had offered a cogent critique of Say's Law long before Keynes.

policy is controlled by the government, not a foreign entity, and the government has an effective system of taxation. Whether the government should expand or contract its spending, and whether increased spending should be financed by borrowing or increased taxes, depend on the macroeconomic conditions. As Keynes pointed out, in a condition of high unemployment and ample unused productive capacity, an increase in public spending will expand GDP and reduce unemployment. To get the maximum expansionary impact, the government should borrow the funds rather than financing the increased spending with increased taxes. If the government borrows the funds from the central bank (the Federal Reserve) rather than private investors, the expansionary impact is still greater, since that means the increased spending is financed by new money created by the Fed when it lends to the Treasury, rather than with funds borrowed from private actors who buy new government bonds. Deficit spending will increase the public debt, but the burden of servicing that debt will be low in a recession when interest rates are low, and the expanding GDP resulting from the fiscal stimulus will bring rising tax revenues over time to service the debt payments.

On the other hand, if the economy is operating at full employment of available labor and full use of productive capacity, then an increase in public spending cannot immediately call forth additional production and instead will tend to bring rising prices — that is, inflation. Thus, at full employment, a plan for increased public spending for some purposes is feasible only if other types of public spending are reduced.¹⁸ This trade-off is captured by the slogan “guns or butter.”

18 An alternative is to raise taxes to cut private spending by a compensating amount.

The Keynesian view of deficits and debt finds strong support from the experience of the US economy in the decades following World War II. When the United States entered the war in December 1941, a huge increase in federal spending financed by borrowing rapidly drove the unemployment rate down from double digits to under 2 percent. By the end of the war, the public debt had reached 106 percent of GDP, as figure 9 showed.

In recent times, austerity advocates have warned that the US public debt as a percentage of GDP is approaching the high level of 1946. That is supposed to be a warning of disastrous consequences ahead. Yet what followed after 1946 was twenty-five years of the fastest and most widely shared economic expansion in US history. This was not achieved by an austerity policy of running a budget surplus. Instead, on average from 1946 through 1974, the federal budget was in deficit. Nevertheless, the debt fell from 106 percent of GDP in 1946 to only 23 percent of GDP by 1974 (figure 9). How was this possible? The answer is that GDP grew faster than the debt.¹⁹ Growing public spending played an important role in bringing a robust 4 percent per year GDP growth rate over that period.

The high level of public debt will not be a constraint on progressive economic policies in 2021. The pandemic recession brought a high unemployment rate, which will still be high when the Biden administration takes office. Interest rates are at the historically low level of just above zero, which makes the payments on public debt rather low, despite the large outstanding principal. Thus, at first there should be no constraint from debt concerns on the ability of a Biden administration to begin pursuing progressive policies in 2021.

Assuming that such an effort does emerge, the first order of business will be to confront the COVID-19 pandemic. As long as the

¹⁹ The austerity advocates, many of whom are trained in advanced mathematics, forget that a fraction can decline not only by a reduction in the numerator but by an increase in the denominator.

pandemic rages, it will not be possible to fully revive the economy in the face of pandemic-induced supply constraints, uncertainty about the future that discourages productive investment by firms, and people's reluctance to engage in normal consumer spending. Active federal leadership based on proven public health measures can contain the virus, while wide distribution of the new vaccines will finally conquer it. As such measures bring the pandemic under control, it will become possible to introduce the kinds of policies advocated by Bernie Sanders.

Some progressive policies will carry a large price tag. Massive public investments are needed to combat global climate change. Public higher education should become free to all, and the current huge educational debt should be forgiven. Health care, including prescription drugs, should be available to all and affordable. Some radical monetary theorists claim that expansion of government programs should be fully funded through Fed-created new money handed to the Treasury. That is bad economics and a losing strategy politically. A sound progressive financial policy should call for borrowing to finance new public investments, such as in a sustainable economy and in education. The rationale is that, since the benefits will be gained over time, they should be paid for over time, rather than out of current tax revenues coming from today's taxpayers.²⁰ Those progressive programs that mainly provide current benefits, such as expanded social security retirement benefits, should be financed from progressive taxation that targets the rich and corporate profits.

20 The second argument for funding public investment via borrowing, besides the fact that its benefits will come over time, is that it may speed up the increase in GDP and thus generate the taxable income to service the debt. However, that consideration may not apply to all of the needed investments aimed at environmental sustainability, since, while they will generate significant future benefits, those benefits will not come in the form of faster GDP growth. Indeed, GDP growth might have to slow down to achieve global temperature goals.

The defeat of the COVID-19 pandemic and the enactment of a progressive policy program would generate many high-paying jobs and move the economy toward full employment. As the economy reaches full employment, choices must then be made in order to continue with a progressive program. The United States has long led the world in military spending, with a military budget in fiscal year 2019 that was greater than the ten next largest in the world.²¹ The military budget escalated sharply during the Trump administration, reaching \$934 billion for all categories of military spending in the fiscal year 2021 budget. That represents 62.8 percent of the \$1.485 trillion fiscal year 2021 discretionary budget that Congress allocates.²² At full employment, further expansion of progressive programs will require a major cut in military spending. The huge US military budget is sustained by the political power of military contracting corporations, but it is also buoyed by the long-standing US government pursuit of global domination, which is an expensive proposition. The Left will have to find a way to confront the false claim that, if the United States does not continue to run the world, disaster would follow.

CLASS MATTERS

The direction of change that will emerge in a period of structural crisis of a form of capitalism is not foreordained by any narrowly technical economic factors. It depends on the balance of forces among key classes and groups. History shows that a relatively progressive SSA emerges only when, first, working people are mobilized and strong enough to effectively press for such a

21 Peter G. Peterson Foundation, "U.S. Defense Spending Compared to Other Countries," May 13, 2020.

22 Kimberly Amadeo, "US Military Budget, Its Components, Challenges, and Growth," *The Balance*, September 3, 2020; and White House, "A Budget for America's Future: FY 2021," Table S-4.

direction, and second, a growing radical mass movement induces fear of more radical change on the part of big business. That was the case when the postwar SSA was emerging in the United States in the 1930s and 1940s, as well as during the Progressive Era reforms of 1900–16 that were part of the early-twentieth-century SSA.

Decades of neoliberalism have left the labor movement historically weak today. Some outbreaks of labor militancy have emerged recently, among teachers and others, but not on the scale of the labor upsurge of the 1930s and '40s. Young people have emerged as a distinct group in political motion demanding major reforms around climate change and higher education. Recent public opinion surveys have shown that slightly over half of those aged eighteen to twenty-nine in the United States favor “socialism,” a remarkable development given the limited mass appeal of socialism in the past. If even a small share of the huge number of young people who say they favor socialism become active socialists, that would bring a major change in the potential for movement toward progressive change.²³ Decades of severe repression of African Americans brought the massive Black Lives Matter protests that have generated further pressure for progressive reform. Trump’s assault on immigrants, particularly Latino/a immigrants, mobilized many young Latino/a people.

There is evidence that overall public opinion in the United States has swung to the left on many economic policy issues, including a higher minimum wage, access to affordable health care as a human

23 It is not clear what those who say they favor socialism mean by that term. It is likely that, for most, it means they do not like the capitalism they have grown up with, and they are attracted to what they think would be a different system aimed at meeting human needs. That could mean support for progressive reform of capitalism, that is, social democracy, or it could mean openness to a move beyond capitalism to a system without a wealthy class of owners whose pursuit of profit runs the economy. The meaning has not yet been established for most of the young people attracted to “socialism.”

right, action to combat climate change, affordable higher education, and the right to join a union. While most black voters chose Biden over Sanders in 2020, they have also shown strong support for Bernie's economic policy demands. The COVID-19 pandemic may have further increased public support for progressive economic policies. The pandemic has served as a real-life case study of the limits of the "free market" and the value of a comprehensive welfare state that assures access to health care, a strong public health system, and income security for the population.

As president, Biden will face significant pressure from labor, from people of color, and from young people to move boldly to enact a progressive agenda. On the other hand, the various constituencies that have favored neoliberalism will press for caution and a centrist agenda that would leave neoliberal capitalism in place. A key question is the role that big business — the group that brought us neoliberalism at the end of the 1970s — will play in 2021.

Big business as a whole did not buy into Trump's nationalist politics. Trump's tariff offensive has disrupted the highly profitable globally integrated economy that big business constructed. Big business wants access to immigrant labor, both high-skilled and low-skilled. Large corporations today have racially integrated managements and do not support Trump's white supremacy.²⁴ However, Trump's aggressive anti-labor, deregulation, and tax cut policies have pleased big business. So far, American big business has remained in support of neoliberalism.

There are signs that big business may be moving away from neoliberalism on some issues. Corporations' analyses of the impact of climate change on their future bottom lines may be inducing a readiness to support measures to arrest global warming. In August

24 It was Trump's warm statements toward white supremacists in Charlottesville, Virginia, in 2017 that led the corporate CEOs on his two business advisory councils to disband them. The move was led by minority and female CEOs.

2019, the Business Roundtable, an organization of corporate CEOs that is the leading big business policy organization, issued a statement calling for a rejection of the dominant corporate management policy of a sole focus on profits, to be replaced by taking account of the interests of employees, customers, and the general public as well as shareholders.²⁵ The proposed new policy had been the official corporate ideology in the era of postwar regulated capitalism, but it was replaced through the victory of the “shareholder value” movement in the 1970s, which held that the only corporate responsibility is to maximize the return to shareholders.

After World War II, the economic and technological rivalry with the USSR was a major factor driving federal promotion of technological advance and a large expansion of federal funding for higher education. As the economic rivalry between a rising China and the United States has intensified, some big business thinkers may notice that active state programs have fostered a very high rate of productive investment in China, while neoliberalism in the United States has encouraged unproductive financial expansion at the expense of productive investment. While China has made rapid strides in innovation with strong state support, US federal spending on research and development declined in the neoliberal era after 1987, as figure 10 shows. Such considerations may prod big business to turn away from neoliberal policies that encourage financialization and limit government support for innovation, opting instead for a sizable expansion of state support for productive investment and technological innovation. That could extend to support for making higher education more affordable.

25 “Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans,’” Business Roundtable, August 19, 2019.

Figure 10. Federal Spending on Research and Development as a Percentage of GDP, 1953 – 2018

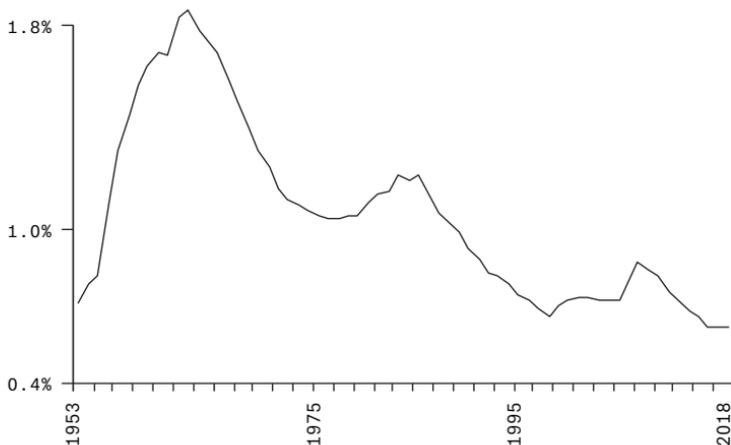


Figure 10: National Science Foundation, nces.nsf.gov/pubs/nsf20307/#data-tables&.

REGIME CHANGE?

It is possible that the neoliberal form of capitalism will survive for some time despite the continuing stagnation it brings. However, the continuing stagnation puts growing pressure on all groups and classes to support measures that would overcome it. The only feasible route to doing so is through a nationalist or a green social democratic restructuring of capitalism. Either direction could lead to a new SSA.

If a decisive segment of big business does turn away from neoliberalism based on the above developments, they might throw their support behind a nationalist SSA. A further possibility is that big business will accept another period of compromise with labor and other popular constituencies, which is a condition for moving

toward green social democracy in the United States, given the limited power of those constituencies.²⁶

The defeat of Trump in November did not eliminate the possibility of a nationalist direction in the United States. If stagnation and its accompanying retrograde trends are not reversed under Biden's presidency, either Trump or another authoritarian nationalist is likely to have a good chance at winning the presidency in 2024, which could lead to a consistent nationalist restructuring. A consistent nationalist direction would repress labor and keep wages in check, which promotes rising profit and encourages growing investment. Growing state investment in infrastructure and technology would aim to maintain US economic superiority, while rising military spending would buttress continued US global domination. Rising government spending would keep aggregate demand growing despite stagnating wages. A nationalist ideology provides the glue for such a form of capitalism, as the acquiescence of working people is obtained through identification with a strong state.

A green social democratic direction could also construct a new SSA. A new capital-labor compromise would bring rising wages as well as rising profits, which can coexist given increasing labor productivity. Rising profits would encourage productive investment, while rising wages would promote growing aggregate demand.²⁷ A major infrastructure spending program aimed at stopping global

26 In the UK and Scandinavia after World War II, a social democratic structure was imposed on big business by dominant socialist or labor parties. That led to a more developed social democracy than the postwar US version, which arose with big business as a powerful player in the construction of the new regime.

27 The rate of profit in the United States reached its highest level since the end of World War II not in the neoliberal era, but in the mid-1960s, at the height of regulated capitalism. While the share of profit in total income has been greater in the neoliberal era, the higher rate of utilization of productive capacity under regulated capitalism, due to the rapid growth of both wages and public spending, gave rise to a higher rate of profit on invested capital.

climate change, in combination with other progressive policy initiatives, would further contribute to growing aggregate demand. Regulations designed to reign in the financialization that has retarded productive investment would also be likely. A Keynesian ideology of a “mixed economy,” with private enterprise and an active state that together bring benefits shared by all classes and groups, would underpin such a form of capitalism.

The narrowness of the Democratic majority in the incoming Congress presents a potential obstacle to any move toward green social democracy, but not necessarily an insurmountable one. Even with the loss of their Senate majority, Republicans will have significant capacity to obstruct proposed legislation. However, history shows that public officials shift their positions during a time of resolution of a structural crisis. Post-World War II regulated capitalism was finally consolidated only after Republicans won control of both houses of Congress in the 1946 election. The first government moves toward neoliberal transformation in the United States began in the last two years of Jimmy Carter’s presidency, when deregulation, cuts in social programs, tax benefits for business, and austerity policy came to dominate the administration’s policy agenda. If a decisive segment of big business does opt for at least some parts of the green social democratic agenda, they may be able to bring enough Republican senators along to pass the necessary legislation.

GREEN SOCIAL DEMOCRACY

The best future path for working people in the United States would be some version of green social democracy. Socialism is not on the political agenda at this time. However, a period of green social democracy has the potential to at least slow global warming to stave off the danger of disastrous global climate change. It would bring significant improvements for working people, young people,

people of color, and other popular constituencies. Green social democracy based on compromise between capital and labor would be far better for working people than an authoritarian nationalist SSA, which would repress labor and leftist movements and would contain the seeds of costly global conflicts. Green social democracy would prevent a turn toward authoritarian nationalism in the United States, a direction that would be a disaster for the majority in the country and around the world.

If green social democracy does emerge in the United States, to include a new progressive international policy would prove challenging, as it would mean abandoning the long-standing US drive to control the world. In a powerful capitalist state, the pursuit of profit generates a drive toward imperialist domination to secure the profit interests of the capitalist class. Responding to that imperative, mainstream Democratic and Republican officeholders have long supported the goal of US global hegemony. Biden's current position on US relations with China shows he is no exception.

The previous round of regulated capitalism in the United States included the maintenance of global domination along with frequent military interventions abroad. In the late 1940s, the US economy was so dominant in the world that it could sustain several decades of progressive reform in domestic policy while devoting massive resources to the military — both guns and butter were affordable. Eventually that contradiction played a role in the demise of postwar regulated capitalism, when the cost of the US war in Vietnam was one factor destabilizing the American and global economies. The US economy today is much smaller compared to the global economy than it was in 1945. In 2021, a continuing government commitment to maintaining global domination would pose an obstacle to a consistent green social democracy.²⁸ When

28 Also, it is unclear whether the United States today has the economic strength

the economy reaches full employment, further policy progress would stall without a major reduction in the military costs of maintaining an empire.

The above analysis suggests a strategy for the Left in this period. We should join efforts to press the Biden administration to move toward green social democracy. At the same time, we should contribute to building a stronger labor movement and a growing socialist movement. Those aims are not competing; they are complementary. We cannot bring about a move beyond capitalism at this time, but we can contribute to a green social democratic direction while marginalizing authoritarian nationalism. It was the radicalization of the New Deal in the mid-1930s that undercut popular support for the then-growing neofascist movement in the United States. If we succeed in helping to build a more powerful labor movement and a growing socialist movement, that will contribute to pushing toward green social democracy in 2021.

Social democracy, while the best form of capitalism for working people, is still a form of capitalism. At some point, the contradictions of a green social democratic capitalism will bring about a structural crisis of that form of capitalism. If the Left succeeds in building a sufficiently strong mass socialist movement during a new period of green social democracy, a transition beyond capitalism may well move onto the political agenda in that future structural crisis. Only a transition beyond capitalism can bring a secure, satisfying, peaceful, and environmentally sustainable future, which can never be reached within a system based on the pursuit of profit by a small wealthy class from the labor of the majority. ☞

to maintain its role as global hegemon.