Chapter 12

Is there a way out?

It was said that Reaganomics was a Trojan horse for the rich. Under the cover of a new tax policy, tax rates on top brackets were drastically reduced from 70% to 35%. In a book published in 1986, David Stockman, Ronald Reagan’s budget director, writes that the main purpose of the tax reform was to bring down the tax rate on upper income brackets and that to make the reform palatable as a political matter it had to be presented as a new bold economic approach called supply-side economics\(^1\).

In the same line of thought as suggested in previous chapters the main themes of neoliberalism (which is the global version of Thatcherism and Reaganomics) included many demands which have been on the corporate agenda for decades. If we accept this assumption it must be possible to find other historical episodes during which neoliberal policies were either dropped or re-introduced after having been abandoned for a while. It is the purpose of this chapter to present and briefly discuss such episodes. We will describe five episodes.

1) The crisis of 1893-1897. This crisis is interesting because it has some similarities with the present crisis. It started as a financial crisis, became an economic crisis and ended in what is called the progressive era which was marked by a kind of New Deal. It was the time of Theodore Roosevelt’s “Square Deal”\(^2\).

After World War I the decade of the 1920s was again a period of frenzy and

\(^1\)In contrast Keynesian policies rely on stimulating demand and consumption and because lower-income earners spent a much larger proportion of their income than high-income earners they recommend to lower tax rates for cash-strapped households. Supply-side economics relied on the development of entrepreneurship and on the implicit assumption that “a rising tide will lift all boats”.

\(^2\)In many respects T. Roosevelt’s Square Deal prefigured F. Roosevelt’s New Deal. In 1906 he convinced Congress to create the “Interstate Commerce Commission” to regulate interstate railroad rates. It was the first true federal regulatory agency.
speculation marked by an advance of neoliberalism.

2) The transition from the neoliberal agenda to the New Deal agenda in 1932-1933 in the wake of the Great Depression.

3) The resistance against the implementation of New Deal policies in the period 1933-1938.

4) The post-war period after the death of President Roosevelt in 1945 (at the beginning of its fourth term) and the end of the war economy was marked by a series of defeats for unions and labor. After 1947 with the buildup of the Cold War the progressive forces who had supported the New Deal suffered even greater blows. The economic effects of these setbacks were not immediately apparent because globally it was a period of great prosperity. For instance real wages continued to increase for about 20 years.

5) At the beginning of his term in the spring of 2009, president Obama gave several signals which suggested that neoliberal policies were no longer favored. At the time of writing (April 2009) it is still too early to say if these signals will open the way to new policies. However, the evidence currently available suggests that the president has opted for going along with business lobbies rather than to oppose them.

1 Crisis of 1893-1900

The depression which began in 1893 had some common characteristics with the depression which started in 2008.

- In 2008 many US banks had to be bailed out by the government. In 1893 many banks and railroad companies had to be bailed out by the government. For instance on 16 August 1893 the Northern Pacific Railroad was placed in the hands of receivers (after having been declared in bankruptcy) for the third time. By February 1994 one sixth of the railroad mileage had passed into the hands of receivers (NYT 27 Feb 1894 p. 4).

- In 1894 as in 2008 the situation of many banks was beleaguered by recurrent writedowns. An article of the New York Times of 13 August 1893 observes: “Commercial bank directors are not hopeful. A good deal of the paper is reputed worthless”. Two months later one reads the following judgment: “The most reckless and unscrupulous methods may be pursued by the directors of a bank until the institution has been plunged into bankruptcy” (NYT 25 Oct 1893 p. 4).

- As can be seen from Fig. 12.1 the initial increase rates of unemployment were fairly parallel for the two depressions.