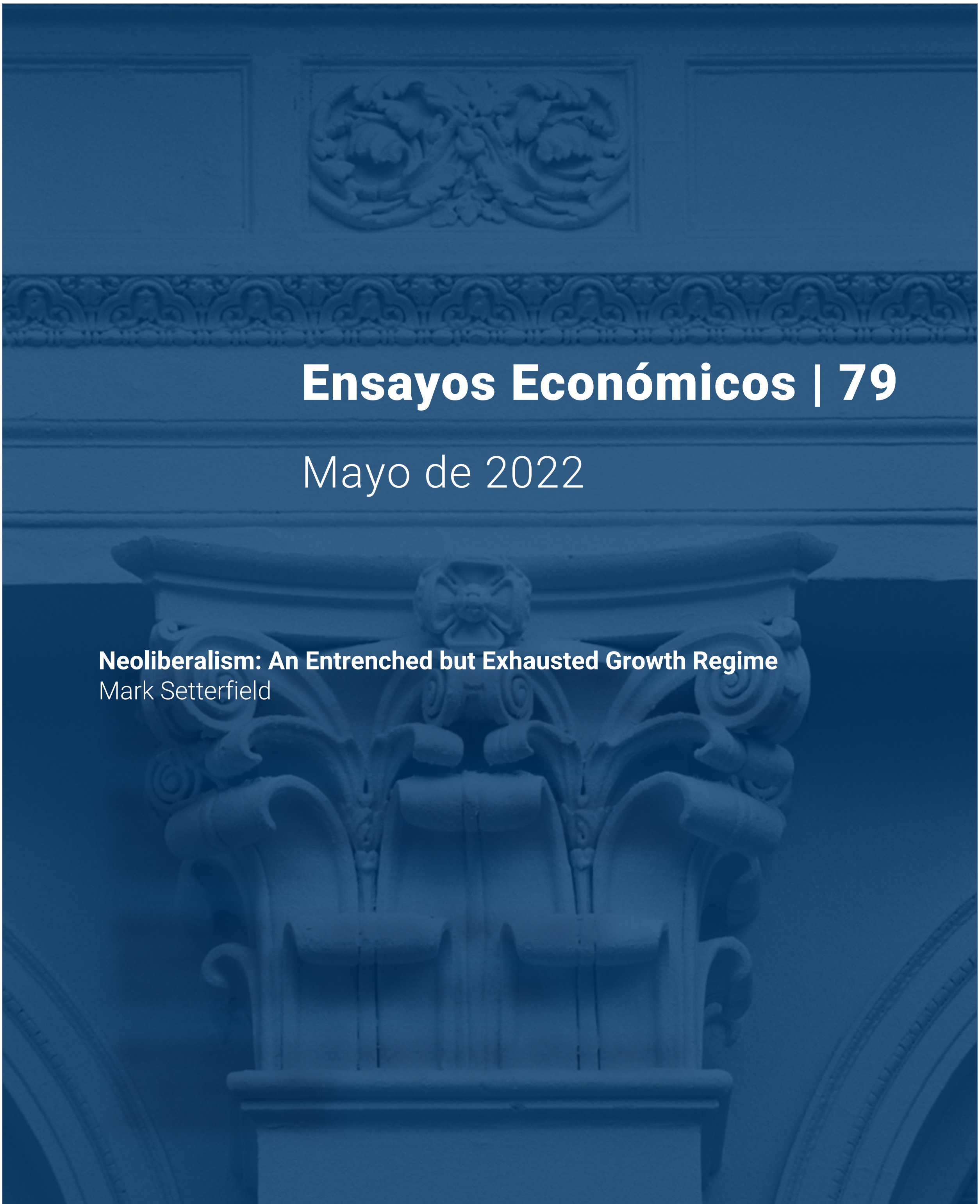

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Neoliberalism: An Entrenched but Exhausted Growth Regime

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Abstract

This paper analyzes Neoliberalism in the US economy with a view to identifying the effects of Neoliberalism on macroeconomic performance since 1990, underlying problems with the structure of the Neoliberal economy, and the effects of Neoliberalism on the economic consequences of the COVID-19 pandemic. It is shown that Neoliberalism 'worked' from 1990-2007 by combining an 'incomes policy based on fear' that permitted non-inflationary growth and low unemployment with a debt-financed, consumption-led demand regime that, as evidenced by the 2007-09 financial crisis and Great recession, was unsustainable. Since 2009 Neoliberalism has proved to be an entrenched but exhausted growth regime, producing only a 'depressed upswing' 2009-2019 that was terminated by the onset of the COVID-19 recession –the response to which was neither efficient nor equitable. The paper concludes that at this juncture, the epithet 'build back better' must be applied to the entire US economy.

JEL Classification: B52, E12, E31, E32, E64, E66.

Keywords: COVID-19 recession, depressed upswing, incomes policy based on fear, Neoliberalism.

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El Neoliberalismo: un régimen de crecimiento arraigado pero agotado

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Resumen

Este documento analiza el Neoliberalismo en la economía estadounidense con el fin de identificar sus efectos en los resultados macroeconómicos desde 1990, los problemas subyacentes con la estructura economía Neoliberal, y los efectos del Neoliberalismo en las consecuencias económicas de la pandemia del COVID-19. Se demuestra que el Neoliberalismo "funcionó" entre 1990 y 2007 al combinar una "política de ingresos basada en el miedo" que permitió un crecimiento no inflacionario y un bajo desempleo con un régimen de demanda financiado por deuda e impulsado por el consumo que, como demostró la crisis financiera de 2007-2009 y la Gran Recesión, era insostenible. Desde 2009 el Neoliberalismo ha demostrado ser un régimen de crecimiento arraigado pero agotado, que sólo produjo una "reactivación deprimida" en 2009-2019 que terminó con el inicio de la recesión del COVID-19, cuya respuesta no fue ni eficiente ni equitativa. El documento concluye que, en esta coyuntura, el epíteto "reconstruir mejor" debe aplicarse a toda la economía estadounidense.

Clasificación JEL: B52, E12, E31, E32, E64, E66.

Palabras clave: Neoliberalismo, política de ingresos basada en el miedo, reactivación deprimida, recesión COVID-19.

1. Introduction

The purpose of this paper is to analyze US experience with Neoliberalism since 1990. The discussion focuses the effects of Neoliberalism on macroeconomic performance, underlying problems with the structure of the Neoliberal economy, and the effects of Neoliberalism on the economic consequences of the COVID-19 pandemic. The project is ambitious and in what follows, a number of important pathologies of the Neoliberal economy are discussed only briefly or, in some cases, set aside (but see Flaschel *et al*. (2022) for greater detail). A distinction is made between the 'Neoliberal Boom' in the US economy (1990-2007) –a long boom spanning two successive business cycles that was terminated by the 2007-09 financial crisis and Great Recession– and the subsequent 'depressed upswing' (2009-2019) that was terminated by the onset of the COVID-19 pandemic and the recession it initiated.[1] During the latter period, Neoliberalism is identified as an exhausted but institutionally entrenched growth regime that, having endogenously generated one major crisis (the Great Recession), contributed to a second (the COVID-19 recession and its aftermath) by proving incapable of responding either equitably or efficiently to a major exogenous shock. The US-centric focus of the analysis is justified by the fact that the US (together with the UK) can be considered the vanguard and subsequent 'leading edge' of Neoliberalism, following the Thatcher-Reagan 'revolutions' of the 1980s. Most major economies have 'neoliberalized' to some extent over the past four decades, however, including those usually associated with different 'varieties of capitalism' (see, for example, Setterfield and Kim, 2020). Moreover, a number of the problems discussed in what follows can also be found in middle-income economies (see, for example, Ormaechea, 2021; de Medeiros and Trebat, 2021; Caldentey and Vernengo, 2021).[2]

The remainder of the paper is organized as follows. The next section provides an account of Neoliberalism in theory and practice, drawing attention to macroeconomic performance during the Neoliberal boom, the underlying (structural) basis for this macroeconomic performance, and the problems therewith. In the third section, US macroeconomic performance 2009-2019 is identified as a 'depressed upswing' associated with an institutionally entrenched but now effectively exhausted Neoliberal growth regime. The final section offers some conclusions, foremost among which is the need for fundamental structural reform that shifts the focus of capitalist economies away from Neoliberalism and towards 'social capitalism'.

2. Neoliberalism in theory and practice

2.1. US macroeconomic performance during the Neoliberal Boom

The thesis advanced in this section is that during the Neoliberal Boom (1990-2007) and judged in terms of conventional indicators of macroeconomic performance, Neoliberalism 'worked' but not as advertised. The claim that Neoliberalism 'worked' can be substantiated with reference to Table 1,

[1] See, for example, Guttmann (2021, pp.12-14) for further discussion of the foundations of this approach to analyzing the US economy over the past several decades.

[2] The focus in Caldentey and Vernengo (2021) is on 'financialization' rather than Neoliberalism –but note that these are frequently treated as synonyms, with Neoliberalism regarded as a modern form of financialized capitalism (see, for example, Duménil and Lévy, 2011).

which reports four indicators of macroeconomic performance (the rates of unemployment, inflation and growth, and the wage share of income) together with the Federal Funds rate (an indicator of the monetary policy stance of the Federal Reserve Bank —FRB—) from 1960-2007. Performance in the first column (1960-73) corresponds to the end of the postwar 'Golden Age' growth regime, while that reported in the fourth and fifth columns (1990-2000 and 2001-2007) corresponds to the Neoliberal Boom. The second and third columns describe events during the *inter regnum* that separated the Golden Age and Neoliberal growth regimes. Table 1 shows that following the marked deterioration in unemployment, inflation, and growth performance in the US 1974-89, during which time the both the wage share of income and the Federal Funds rate rose, after 1990 Neoliberalism succeeded in restoring US unemployment and inflation performance to levels last witnessed during the Golden Age, with an accompanying restoration of the low interest rate environment characteristic of that earlier period. Growth performance was little improved under Neoliberalism, however, while the wage share was not just restored to its Golden Age level but further reduced below that level. But overall, Table 1 suggests that during the Neoliberal Boom, the US macroeconomy functioned in a manner more reminiscent of the postwar Golden Age than of the 1974-89 period of *inter regnum*.

Table 1 | US Macroeconomic Performance, 1960-2007

	1960-73	1974-79	1980-89	1990-2000	2001-2007
Unemployment	4.9	6.8	7.3	5.6	5.2
Inflation	3.1	9.6	5.6	3.1	2.7
Growth	4.3	3.0	3.1	3.3	2.5
Wage share	62.0	62.5	62.6	61.9	60.6
Federal Funds rate	4.77	7.67	9.97	5.24	3.03

Source: Setterfield (2006) and FRED.

2.2. Neoliberalism in theory and practice

According to its advocates –which, for much of the period corresponding to the Neoliberal Boom, included major international organizations such as the IMF and World Bank under the aegis of the 'Washington consensus'– Neoliberalism worked by 'freeing up' the private sector from the fetters of the state and revitalizing the supply side of the economy.

In particular, Neoliberalism was understood to make the labor market 'flexible', reducing 'disincentives' to work (such as the generosity of unemployment insurance schemes) and removing or diminishing the influence of 'impediments' to wage adjustment (such as trade unions). The resulting flexible labor market allegedly resulted in higher employment and hence higher output and income (when accompanied by the passive and accommodating adjustment of aggregate demand to the economy's enhanced potential output). Any initial increase in inequality associated with measures undertaken to increase labor market flexibility would be offset, advocates reasoned, by income gains among the least affluent that would 'trickle down' from aggregate income gains accruing disproportionately to more affluent members of society.

In reality, Neoliberalism worked because it successfully institutionalized an 'incomes policy based on fear' (Cornwall, 1990). Like any incomes policy, the Neoliberal incomes policy based on fear was made up of a stable and coherent set of formal and informal institutions that framed aggregate wage and price setting dynamics, mediating conflict over income shares so as to better reconcile conflicting claims on aggregate income (see Setterfield, 2007, p.129). It emanated from a systematic process of 'zapping labor' by corporations and the state (Harrison and Bluestone, 1988), that began in the 1980s and was purposely designed to weaken the bargaining power of workers: labor law 'reforms' designed to make unionization harder and deunionization easier; increased 'non-standard' (part-time, temporary, and 'gig') employment that threatens full-time, year-round workers with involuntary underemployment at any given rate of unemployment; 'downsizing' exercises that threaten unemployment independently of the state of general macroeconomic performance; and the credible threat of unemployment due to domestic or international plant relocation –which threat has also been shown to contribute to the undermining of unionization drives (Palley, 1998; Bronfenbrenner, 2000).[3]

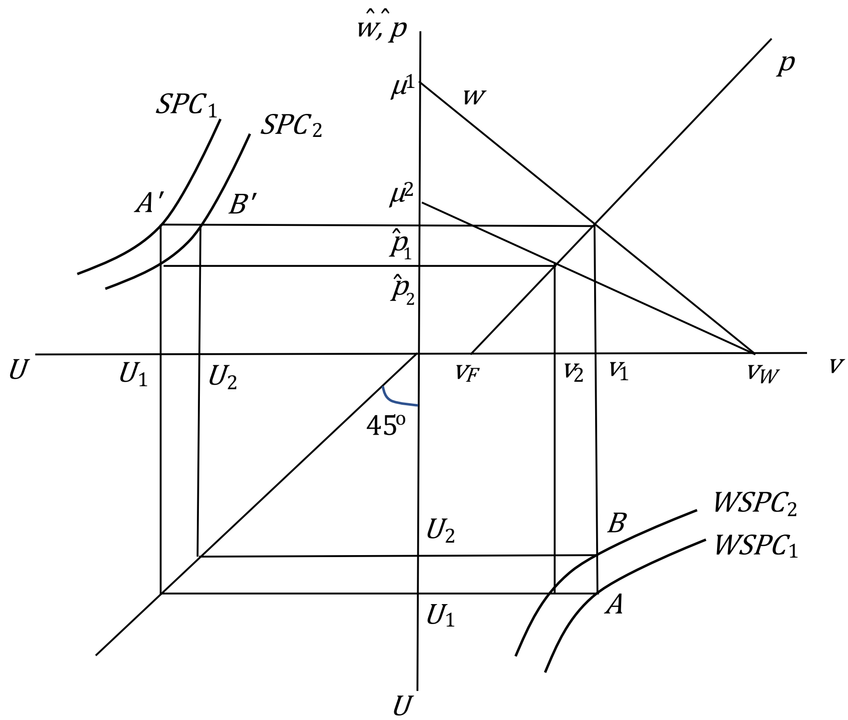
The upshot of these developments is a form of institutionalized worker insecurity that curtails inflationary forces and buttresses profitability regardless of the rate of unemployment, so allowing monetary easement and reductions in unemployment that neither propagate inflation nor threaten to squeeze profits (Setterfield, 2006, 2021). These outcomes are illustrated in Figure 1 which, in the north-east quadrant, depicts structural relationships between the rates of growth of nominal wages ($\hat{w}$) and prices ($\hat{p}$) on one hand, and the wage share of income (v) on the other. As the wage share rises, $\hat{p}$ rises along the price-setting schedule (p) as firms, subject to their price-setting power in product markets, seek to restore target profit margins consistent with their preferred profit share (1 –v_F). Meanwhile, as the wage share falls, $\hat{w}$ rises along the price-bargaining schedule (w) as workers, subject to their bargaining power *vis a vis* firms (represented by the parameter μ), seek to defend the value of the real wage implicit in their preferred wage share, v_W.[4] Initially, the interaction of these conflicting income claims results in an equilibrium wage share v_1 and rate of inflation $\hat{p}_1$ that, at the prevailing rate of unemployment U_1, constitute points on the standard and wage-share Phillips curves SPC_1 and $WSPC_1$ in the north-west and south-east quadrants of Figure 1, respectively. The institution of the Neoliberal incomes policy based on fear reduces worker bargaining power (from μ_1 to μ_2) – which development, *ceteris paribus*, is consistent with a reduction in the wage share and rate of inflation (to v_2 and $\hat{p}_2$, respectively) at U_1, shifting the SPC and WSPC to SPC_2 and $WSPC_2$, respectively. A fall in the interest rate that stimulates output and employment and so reduces unemployment (to U_2) then raises worker bargaining power (to μ_1), restoring the wage share and inflation rate to v_1 and $\hat{p}_1$, respectively. This results in movement along SPC_2 and $WSPC_2$ in the north-west and south-east quadrants of Figure 1. Considered simultaneously, the combined result of these developments is movement from points *A* and *A'* to points *B* and *B'* in Figure 1: non-inflationary and nonwage-share-increasing declines in unemployment brought about by monetary stimulus and facilitated by the institution of the incomes policy based on fear. Effectively, the institutionalized threat to worker income and employment security created by the incomes policy based on fear substitutes for the

[3] The systematic weakening of the bargaining of workers over the last four decades is now acknowledged and discussed by 'mainstream' authors such as Stansbury and Summers (2020) –having been accepted much earlier by central bankers such as Alan Greenspan, whose 'labor market fear factor' testimony to the US Congress, in defense of FRB interest rate policy during the mid-1990s, epitomizes the core workings of the Neoliberal incomes policy based on fear.
[4] For further discussion of this model see, for example Blecker and Setterfield (2019, chpt.19).

threat created by higher unemployment, allowing for monetary easement and reduced unemployment without inflationary pressure or a profit squeeze.

These outcomes are consistent with the data in Table 1 describing the restoration of Golden Age macroeconomic performance in the US during the Neoliberal Boom, following the *inter regnum* of the 1970s and 1980s when 'tight money' and high unemployment were deemed essential to control high inflation and pressure on corporate profitability.

Figure 1 | The Neoliberal "incomes policy based on fear"



However, the problem with the incomes policy based on fear as an institutional framework or 'operating system' for advanced capitalism is the risk it poses to the process of demand formation –which risk is implicit in the falling wage share in Table 1, and the threat this poses to the majority of households who depend mainly or exclusively on wage income to fund consumption spending, the single largest component of aggregate expenditures. As has been discussed in a large literature, this problem was 'solved' during the Neoliberal Boom by household borrowing, which debt-financed rising consumption expenditures that could not be funded by stagnant wage incomes (Palley, 2002; Brown, 2008; Cynamon and Fazzari, 2008; Barba and Pivetti, 2009; Setterfield, 2013; Wisman, 2013). But this transformed rather than eliminated the risk to the macroeconomy, which now took the form of growing financial fragility (Godley and Izurieta, 2002; Palley, 2002). As is well known, having remained latent throughout the Neoliberal Boom, the risk posed by increasing financial fragility finally became manifest during the 2007-09 financial crisis and Great Recession –events that ultimately brought the Neoliberal Boom itself to an end.

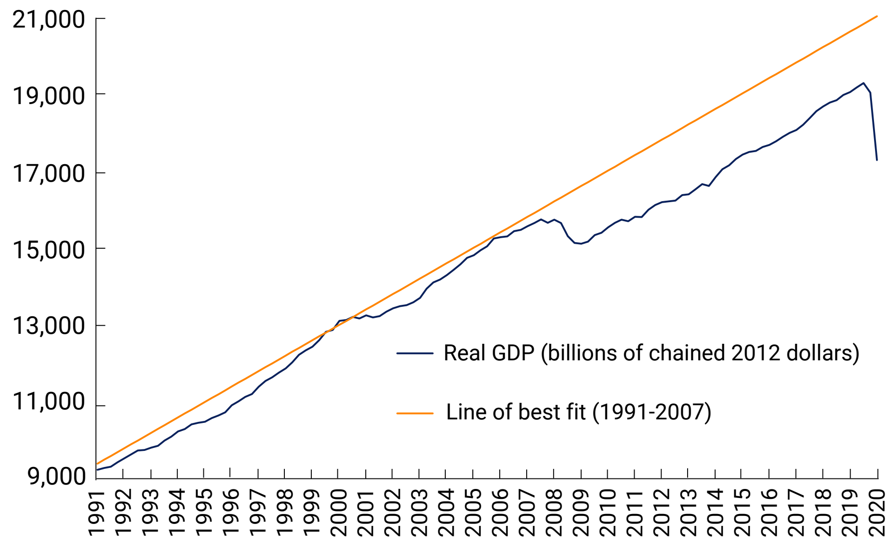
3. An entrenched but exhausted growth regime

3.1. An exhausted growth regime

Having ended the borrowing 'offset' to the latent demand-formation problem inherent in the structure of Neoliberalism (see Cynamon and Fazzari, 2016), the financial crisis and Great Recession presented the US economy with a dilemma: 'wind up the clock springs' of household debt accumulation once again or confront a future of something like secular stagnation (Cynamon *et al.*, 2013). History shows that this 'choice' was resolved in favor of the latter. The recovery from the Great Recession from 2009-2019 is best characterized as a 'depressed upswing' rather than a robust trade cycle boom, that demonstrates the exhaustion of the Neoliberal growth regime post-2009.[5] Two prominent features of the 2009-2019 period bear out this diagnosis: the trajectory of real output since 2009; and the overstated 'tightness' of both the goods and labor markets towards the 2019 cyclical peak.

As Figure 2 illustrates, the trajectory of real output in the US after 2009 paints a dismal picture of failure to recover to anything resembling the trend path of real output established during the 1990-2007 Neoliberal Boom. In the wake of the Great Recession, the growth of real output in the US reasserted itself at something like its 1990-2007 trend rate. But at no point during the 2009-2019 depressed upswing did the US witness sustained real output growth in *excess* of its trend rate, sufficient to restore the economy to its pre-2009 trend output path. In other words, and unlike either of the two previous recoveries during the Neoliberal Boom illustrated in Figure 2, the 2009-2019 recovery was not even so much as 'U'-shaped (much less 'V'-shaped).

Figure 2 | US real GDP 1991-2019

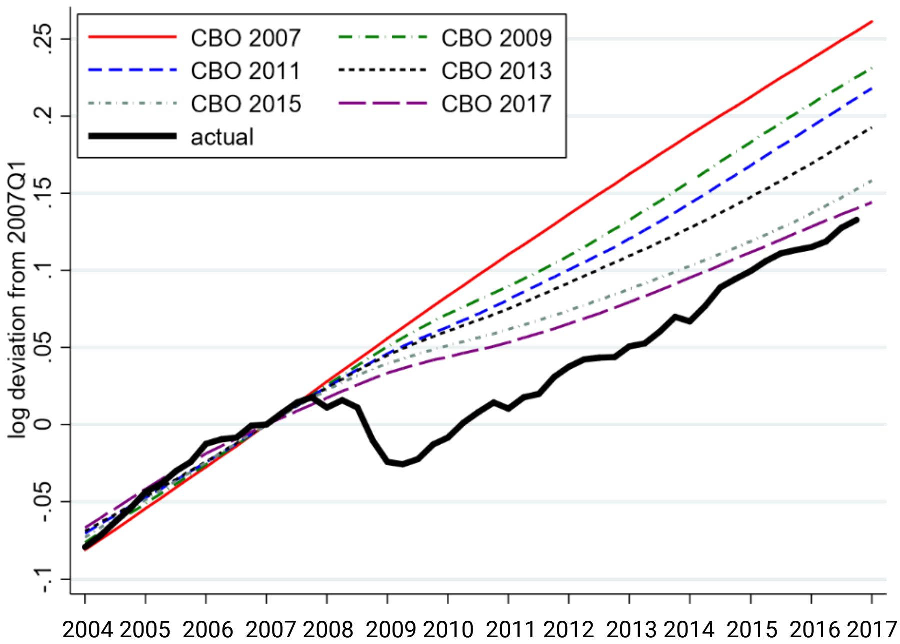


Source: Authors' calculations based on Federal Reserve Economic Data (FRED).

[5] See, for example, Palley (2013) for an early anticipation of this theme of Neoliberalism as an exhausted growth regime.

The weakness of the recovery in real output is further illustrated by the behavior of the output gap. By conventional measures the output gap narrowed as the boom progressed, suggesting a progressively tightening goods market as the US approached its 2019 cyclical peak. But as is well known, the conventionally measured output gap narrowed 2009-2019 largely because of successive downward revisions in the Congressional Budget Office's (CBO) estimates of the potential output path in the US, as illustrated in Figure 3. As shown in Figure 4, the alternative measure of goods market slack developed by Tercioglu (2020), which is designed to make estimates of potential output and hence the output gap less sensitive to actual output, shows that the US experienced a sustained output gap throughout the 2009-2019 depressed upswing. This again contrasts with experience during either of the two previous business cycle upswings during the Neoliberal Boom, when the output gap diminished and was eventually eliminated as the upswing progressed towards its cyclical peak.

Figure 3 | CBO estimates of US potential output since 2007

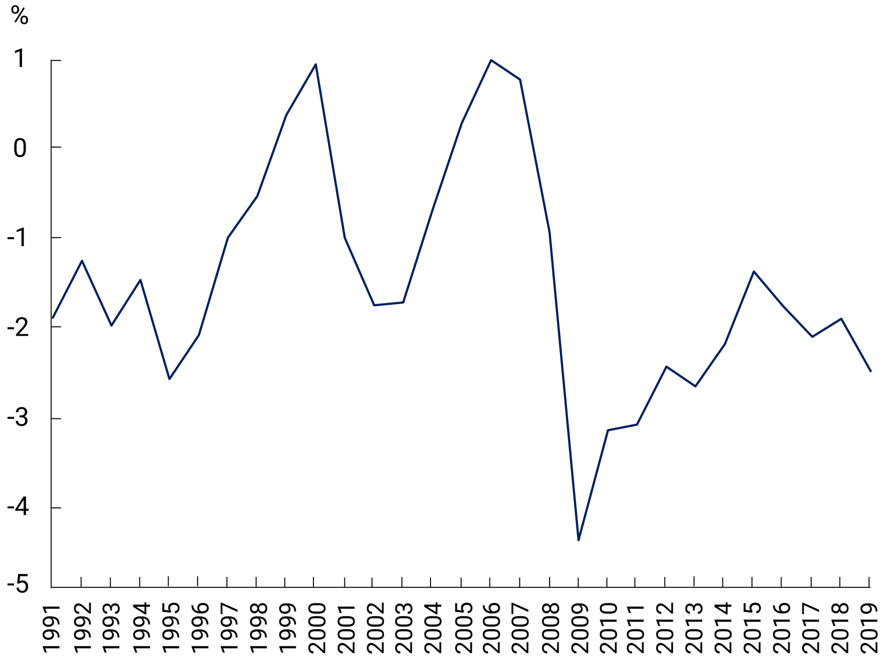


Source: Coibion *et al*., 2018.

At the same time, the tightness of the US labor market towards the closing stages of the 2009-2019 depressed upswing was systematically overstated by the conventional U3 measure of unemployment. As previously noted, an important constituent part of the Neoliberal incomes policy based on fear is the threat of underemployment (at any given rate of conventionally measured unemployment) created by the growth of part time and contingent employment and the associated growth of *involuntary* part time and contingent employment. When this latter phenomenon is considered together with discouraged workers (who reduce labor force participation and thereby falsely deflate U3), the resulting U6 measure of unemployment developed by the Bureau of Labor Statistics (BLS) demonstrates that even during the later stages of the 2018-19 depressed upswing, the US labor market remained slack. This is illustrated in Figure 5, which plots the BLS's U3 and U6 measures of US unemployment throughout the Neoliberal era. U6 averaged 11.9% during the 2009-

2019 depressed upswing, almost a third higher than its average of 9.1% during the previous (2002-2007) trade cycle upswing at the end of the Neoliberal Boom.

Figure 4 | An alternative measure of the US output gap

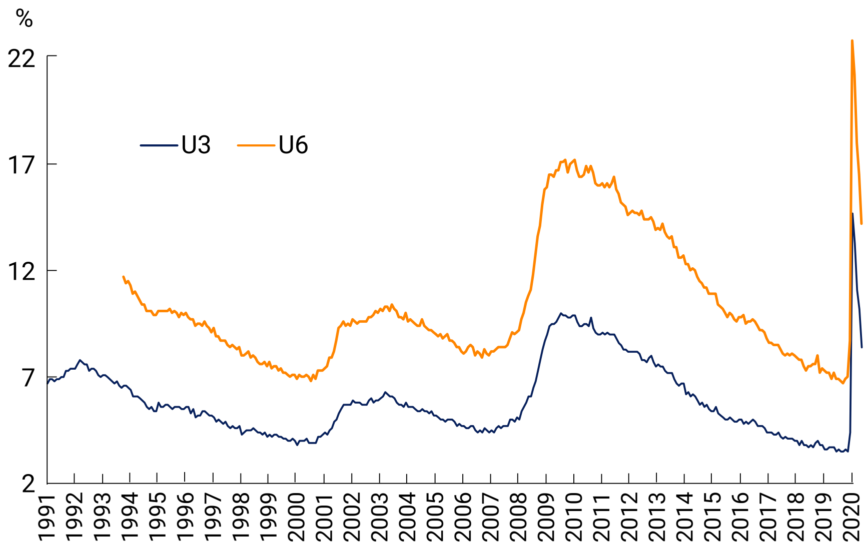


Source: Author's calculations based on Tercioglu (2020).

3.2. An entrenched growth regime

Just as the evidence of the 2009-2019 depressed upswing suggests that the Neoliberal growth regime is now exhausted, so, too, it suggests that this growth regime remains entrenched –that its basic structure remains intact, even as it now fails to deliver macroeconomic performance on a par with that during the Neoliberal Boom. Hence core Neoliberal mechanisms for suppressing labor and generating income inequality continued to function after 2007. This is demonstrated in Figure 6, which illustrates the fabled 'Goodwin pattern' in the US economy since 2000. The Goodwin pattern describes a high-frequency clockwise rotation in wage share × employment rate space, and is a well-established feature of advanced capitalist economies over the last century or more (see, for example, Setterfield, 2021, and the various references therein). Figure 6 shows that the US wage share fell markedly between the cyclical peaks of 2000 and 2007, during the closing stages of the Neoliberal Boom. A similar marked decline in the wage share is again evident between the business cycle peaks of 2007 and 2019. Indeed, Figure 6 provides no evidence of even so much as a traditional profit squeeze during the 2009-19 depressed upswing, the wage share remaining essentially constant even as the employment rate rose by approximately six percentage points.

Figure 5 | Alternative measures of unemployment in the US, 1991-2020



Source: Bureau of Labor Statistics (BLS).

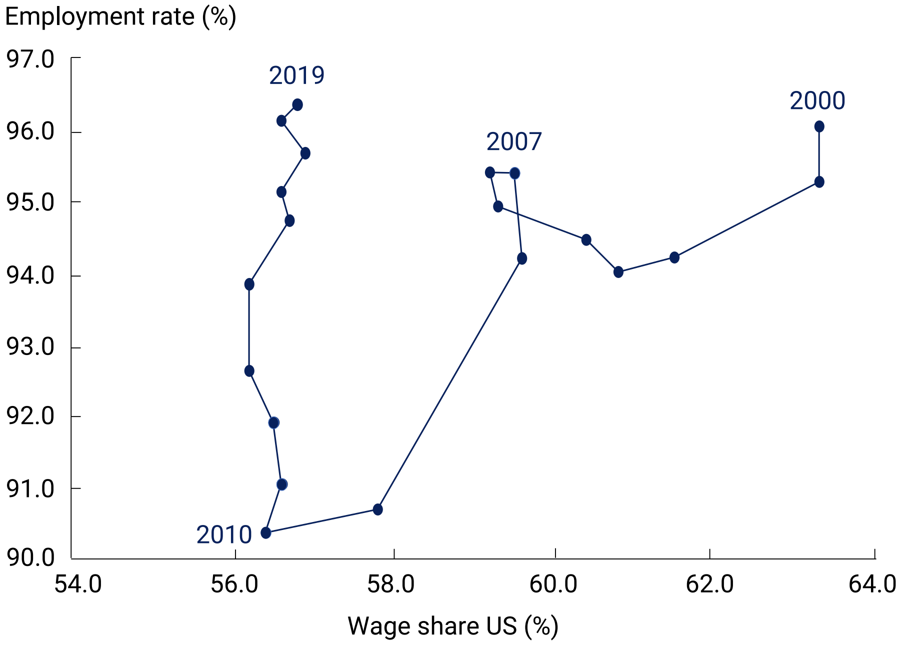
The 2009-2019 depressed upswing was, of course, brought to an abrupt end by the onset of the COVID-19 pandemic and associated 'lockdowns' which, although motivated by the purpose of protecting public health, had the immediate and widespread effect of reducing both production and (in-person) exchange, resulting in the onset of recession in the US economy in early 2020. As a result of this turn of events, a Neoliberal system that had already proved itself capable of manufacturing crisis from *within* (the 2007-09 Great Recession) was now shown to be incapable of responding either efficiently or equitably to a substantial shock from *without*.[6] As regards the inefficiency of the response, we need only refer to events in the labor market once the beginning of 2020. Absent any equivalent of the German *Kurzarbeit* work sharing system, designed to respond to economic downturns by reducing hours worked (and compensating still-employed workers for loss of income due to short hours), the US economy instead responded to the crisis through *ad hoc* reliance on various extensions to the unemployment insurance system, designed to compensate workers for total loss of income due to the sudden onset of mass unemployment. Labour in the US economy was thus underutilized during the COVID-19 recession in a manner that served to maximize worker-firm separations and (judging by trends in the labour force participation rate since the beginning of 2020) encouraging many US workers to drop out of the labour force altogether.[7] This uncoordinated, inefficient labour market response to the onset of the crisis is among the various factors now hampering recovery from the COVID-19 recession, as firms who simply laid off workers altogether (without the possibility of recall) now struggle *en masse* to rehire.[8]

[6] See also Scott and Pressman (2021) and Ghosh and Renna (2021) on inefficiencies and inequities in the response to COVID-19 in Neoliberal economies such as the US and UK.

[7] Whether this reduced labor force participation proves merely persistent or, in fact, becomes a permanent 'hysteresis effect' remains to be seen. The nature and consequences of reduced labor force participation are discussed further below.

[8] As argued by Rosenberg (2021, p.424), the inefficiency of the response to COVID-19 in the US was also reflected in a shortage of personal protective equipment (PPE) for essential workers that can be associated with the 'free market' logic of Neoliberalism, the concomitant refusal of the Trump administration to utilize the Defense Production Act, and the resultant competition among states for PPE.

Figure 6 | The "Goodwin pattern" in the US 2000-2019



Meanwhile, the inequity of the Neoliberal response to the COVID-19 crisis is once again illustrated by labour market outcomes. As noted by Guttmann (2021, p.5), the COVID-19 lockdowns created three classes of workers: privileged professionals, who were largely able to adapt by working from home at full pay; 'essential' workers, who continued to work in-person regardless of the risks to their health; and those who lost their jobs altogether (or suffered reductions in hours) with concomitant reductions in pay. These developments reinforced previously existing trends towards increasing wage inequality and created a new source of inequality due to the risks to personal health unique to by the second group of workers. The lockdowns also had disproportionately adverse effects on already-disadvantaged groups such as women and racial minorities, who were disproportionately exposed to the concentration of job losses in low-wage service-sector industries, disproportionately exposed to COVID19 as a result of their disproportionate representation among 'essential' workers, and/or disproportionately responsible for additional childcare and schooling due to the lockdowns.

As previously noted, the US economy has struggled with the early stages of recovery from the COVID-19 recession, partly as a result of the extent of worker dislocation during the recession coupled with what may prove to be a 'hysteresis effect' on labour force participation caused by this dislocation. Hence the US labour force participation rate fell sharply during the early stages of the COVID-19 recession, then rebounded sharply to recover more than half of its initial loss, but has since remained roughly constant, substantially below its pre-pandemic rate. There are several possible reasons for this, including (but not limited to) the discouraging effects of lingering health care concerns, which may prove merely persistent. First, the COVID-19 recession imposed greater-than-usual job losses on low-wage service-sector industries (as opposed to manufacturing industries) and hence on women (as opposed to men) –see Albanesi and Kim (2021). Women displaced from low-wage service sector work may remain permanently outside the labour force because of re-evaluations of work/life balance and/or the realization –borne of a 'natural experiment' forced upon them by a combination of involuntary unemployment and reorganization of the provision of child care and schooling– that the economics of low-wage work and costly child care makes less financial sense than reversion to a more traditional household structure that involves women providing unpaid services to children in the sphere of household production. Meanwhile, other workers forced through the same natural experiment –especially those displaced from industries in which employment conditions have deteriorated during the Neoliberal era due, for example, to power-biased technical change (Skott and Guy, 2007)– may have brought forward decisions to retire that would otherwise have been more evenly dispersed over a period of years.

These developments appear to be having some effects on wage growth, particularly among lower-wage workers in the leisure and hospitality industries who disproportionately bore the brunt of the layoffs precipitated by the COVID-19 lockdowns. Something akin to 'spontaneous collective action' has arisen as a result of reduced labour force participation coupled with the 'great resignation'. In the context of the sheer speed and size of recent adjustments in the economy (the sudden and massive loss of jobs following health-related lockdowns and the equally sudden surge in economic activity following the creation and distribution of COVID-19 vaccinations), the effect has been an empowerment of workers *vis a vis* firms in the wage bargain –at least in the short-term. This qualification is necessary because in other respects, the recovery from the COVID recession demonstrates the continued underlying structural weakness of labour that has been the hallmark of Neoliberalism. Hence rather than prompting immediate resort to increased wage offers designed to increase the quantity of labour supplied –which ought to be the primary mechanism of adjustment in a truly competitive and tight 'free market' for labour– excess demand for workers by mid 2021 instead resulted in calls for political solutions designed to increase labour supply and so permit trade at the 'offer price' for labour preferred by employers. The clamor for nationwide early termination of more generous COVID-era unemployment benefits exemplifies this tendency –which clamor arose despite the lack of any substantial evidence that the strategy was proving effective in states that had already moved to terminate the benefits ahead of their federal expiry date. Meanwhile, although wages in industries such as leisure and hospitality are growing faster than inflation during the second and third quarters of 2021, the average hourly earnings of all employees did not –with the result that real wages fell. Hence according to Federal Reserve Economic Data (FRED), even as the annual rate of increase in the US consumer price index rose from an average of 1.3% during the first 11 months of recovery from the COVID-19 recession (May 2020 - March 2021) to an average of 5.3% from April to October 2021, the annual rate of increase in the hourly earnings of all employees actually *fell*, from 5.0% to 3.4%, between these two periods. These considerations have important implications for concerns about the specter of inflation. They suggest that the structural weakness of labour created by the Neoliberal incomes policy based on fear will predominate as the recovery continues. The upshot of this will be the absence of anything resembling a robust wage-price inflationary spiral. As such, rather than foreshadowing the onset of a genuine inflation –a steady rise in the general price level– it is more likely that increases in measured inflation during the second half of 2021 reflect only once-over changes in prices in specific industries. This has damaging implications for workers because as the FRED data outlined above illustrate, it implies greater reductions in the average real wage than would otherwise occur if there was sufficient worker bargaining power to create the real wage resistance necessary to propagate a robust wage-price inflationary spiral and hence a genuine inflation. In other words, more so than the economy's nominal dynamics, it is distributional outcomes that are once again the 'adjusting margin' in the recovery from the COVID-19 recession, bringing additional distress to those who lost out during the recession and who have been the 'serial losers' under decades of Neoliberalism. There is also an important lesson here for central banks who, in the current environment, need to be mindful of the difference between inflation proper (a *steady* rise in the *general* price level) and the appearance of inflation (caused by month-to-month changes in an index number driven by specific prices). Fortunately, there is evidence that this view is not lost on central bankers themselves (Sheremirov, 2021).

4. Conclusions

Despite the improvement in US macroeconomic performance between 1990 and 2007 relative to the 1974-89 period, Neoliberalism never was a basis for sustainable and inclusive growth. The insecurity-dependence of Neoliberalism meant it could never be inclusive, as evidenced by the secular rise in inequality over the past three decades. The debt-dependence of its demand regime, meanwhile, made the Neoliberal economy unsustainable. This was demonstrated by the 2007-09 financial crisis and Great Recession that brought the Neoliberal Boom to an end.

Persisting now as an entrenched but exhausted regime, Neoliberalism is no longer a basis for growth of any sort. This was demonstrated over the course of the 2009-2019 'depressed upswing', and it is difficult to expect anything better over the course of the next upturn in the business cycle following the inefficient and inequitable response to the COVID-19 recession.

Indeed, the problems created by Neoliberalism now extend well beyond the economic sphere. The rise of nativism, xenophobia, and outright racism associated with right wing populism, and the problems these developments pose for the very fabric of social and political life, can all be linked to 'managing the discontent of the losers' under Neoliberalism (Setterfield, 2020).

The notion of 'building back better' after the COVID crisis, associated with US President Biden's plans for infrastructure investment and social policy, in fact needs to be applied to the entire structure of the Neoliberal economy. As argued by Flaschel *et al*. (2022), the challenge involves harnessing capitalism's forces of production within modified relations of production to create a 'social capitalism' that better directs the forces of production to serve the public purpose. The task ahead is formidable, but it has been confronted before –in the aftermath of two world wars and the Great Depression– and can be again.[9] The insufficiency of *political will*, as opposed to any lack of economic expertise or the presence of binding economic constraints, will likely be the critical impediment to successful pursuit of this agenda.

[9] See, for example, Flaschel *et al*. (2022).

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