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The false promise and bitter fruit of Neoliberalism

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THE FALSE PROMISE AND BITTER FRUIT OF NEOLIBERALISM: POLITICAL ECONOMIC DISEMBEDDING, CULTURAL TRANSFORMATION, AND THE RISE OF PROTO-FASCIST POLITICS

Thomas Palley¹

ABSTRACT

Neoliberalism is a political economic philosophy that consists of two claims, one economic and the other political. The economic claim is free market *laissez-faire* economies are the best way to organize economic activity as they generate efficient outcomes that maximize well-being. The political claim is free market economic arrangements promote individual liberty. This paper argues both claims are problematic. The evidence from the forty-year experiment that began in 1980 shows Neoliberalism has undercut shared prosperity and unleashed illiberal forces that threaten liberty. The paper distinguishes between the first political turn which saw the establishment of Neoliberal political hegemony, and the second political turn toward proto-fascism that we are now experiencing. The second turn is being driven by a collection of factors which have created a demand for proto-fascism and weakened the defenses against alt-right ideas. Those factors include socio-economic disembedding, institutional destruction and political disembedding, increased economic inequality that tilts political power, transformation of attitudes to government and governance, transformation of economic identity, and cultural transformation that celebrates sociopathic egotism. The Third Way's capture of center-left politics means liberal elites occupy the political place that should be held by true opponents of Neoliberalism. Those liberal elites obstruct the politics needed to reverse the deep causes of the drift to proto-fascism. Ironically, that makes those elites a real danger.

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The false promise and bitter fruit of Neoliberalism: political economic disembedding, cultural transformation, and the rise of proto-fascist politics

Abstract

Neoliberalism is a political economic philosophy that consists of two claims, one economic and the other political. The economic claim is free market *laissez-faire* economies are the best way to organize economic activity as they generate efficient outcomes that maximize well-being. The political claim is free market economic arrangements promote individual liberty. This paper argues both claims are problematic. The evidence from the forty-year experiment that began in 1980 shows Neoliberalism has undercut shared prosperity and unleashed illiberal forces that threaten liberty. The paper distinguishes between the first political turn which saw the establishment of Neoliberal political hegemony, and the second political turn toward proto-fascism that we are now experiencing. The second turn is being driven by a collection of factors which have created a demand for proto-fascism and weakened the defenses against alt-right ideas. Those factors include socio-economic disembedding, institutional destruction and political disembedding, increased economic inequality that tilts political power, transformation of attitudes to government and governance, transformation of economic identity, and cultural transformation that celebrates sociopathic egotism. The Third Way's capture of center-left politics means liberal elites occupy the political place that should be held by true opponents of Neoliberalism. Those liberal elites obstruct the politics needed to reverse the deep causes of the drift to proto-fascism. Ironically, that makes those elites a real danger.

Keywords: Neoliberalism, proto-fascism, disembedding, inequality, power, culture.

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1. Introduction: the false promise and bitter fruit of Neoliberalism

This paper is about the false promise and bitter fruit of Neoliberalism. That bitter fruit is the destruction of shared prosperity and the rise of proto-fascist politics. The analysis concentrates on the United States (US), but the argument is applicable wherever Neoliberalism has been politically embraced and it has significant resonance with Western Europe.

Neoliberalism is a political economic philosophy that consists of two claims, one economic and the other political (Palley, 2021a, Chapter 1, p.1). The economic claim is that free market *laissez-faire* economies are the best way to organize economic activity as they generate efficient outcomes that maximize well-being.¹ The political claim is that free markets economic arrangements are necessary for and the best way to promote individual liberty. Both claims have been used to sell Neoliberalism politically.

The claim that free markets promote individual liberty has been particularly important. That claim represents an extension of economics into the political sphere, and it added to the attraction of free market ideology. First, liberty is important, easily understandable, and desired. Second, the emphasis on liberty fit with Western political discourse, and especially resonated with political conditions after World War II. That war was framed as a war against the fascist totalitarianism of Nazi Germany, and the ensuing Cold War was framed as a war against the communist totalitarianism of the Soviet Union.

¹ The original European Neoliberals, like Hayek, shied away from the term efficient and had a loose notion of “best” rooted in Austrian economic theory, which is non-equilibrium. They emphasized the price system as an information discovery and communication mechanism that coordinated economic activity in a socially beneficial manner (Hayek, 1945). Subsequent American Neoliberals, like Milton Friedman, interpreted efficient in terms of competitive general equilibrium (CGE) theory. Given the assumptions of CGE theory, free markets generate productive efficiency and allocative efficiency. Productive efficiency corresponds to minimum cost production and rests on the profit maximization assumption. Allocative efficiency corresponds to Pareto optimality, whereby none can be made better off without making someone else worse off. It requires productive efficiency and individual utility maximization which, together, ensure all opportunities for mutually beneficial production and exchange are used.

The combination of Neoliberalism's economic and political claims was compelling. It promised to deliver increased prosperity and strengthen individual liberty. Both of those promises have proved false. After a forty-year experiment that began in 1980, it is now clear Neoliberalism has undercut shared prosperity and unleashed illiberal political forces that threaten liberty.

This paper explores the economic and socio-political logic behind those developments. Much attention has been paid to explaining and exposing the adverse economic impacts of Neoliberalism, but far less has been devoted to identifying its adverse political impacts. Exposing those political impacts is critical for reversing Neoliberalism as it has long benefitted from the flawed claim it is good for liberty and democracy.

The structure of the balance of the paper is as follows. Section 2 discusses the bitter economic fruit of Neoliberalism associated with the destruction of shared prosperity. Sections 3 and 4 discuss the bitter political fruit of Neoliberalism associated with the the rise of proto-fascist politics. Section 5 concludes the paper with a brief assessment of the political and intellectual challenge ahead.

2. The bitter economic fruit of Neoliberalism: the destruction of shared prosperity

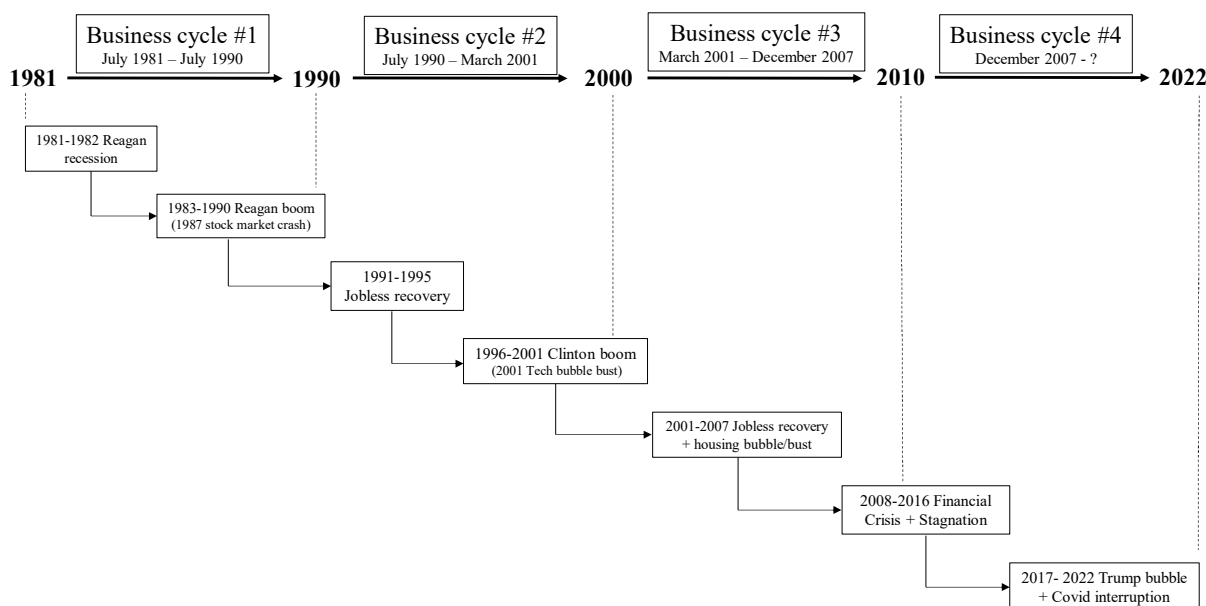
It is not the purpose of this paper to analyze Neoliberal economic theory or the functioning of the Neoliberal economy. I have done that on multiple other occasions (see Palley, 1998, 2002, 2007, 2011, 2012, 2016, 2019, 2021a, 2021b). Instead, the focus is on economic outcomes in the Neoliberal era and their political economic consequences.

2.1 The Neoliberal business cycle

The starting point is describing the Neoliberal economy which yields important insights into its economic character. Figure 1 provides a description of the US business cycle in the Neoliberal

era. For simplicity, the era is dated as beginning in 1981 with Ronald Reagan's inauguration.² The era is characterized by four business cycles that are structurally similar, reflecting their shared economic DNA. Broadly speaking, they can be described as financially driven boom-bust cycles, with the first two cycles being more robust than the second two. The four cycles have also been significantly longer on average than the business cycles of the Keynesian era (1945 – 1980). That lengthening of duration reflects a combination of disinflation and financialization (Palley, 2007, 2021b). Disinflation gave monetary policy a long runway to lower interest rates during the first three business cycles, and financialization has opened the spigot of credit to sustain expansions.³

Figure 1. US business cycles in the Neoliberal era, 1981-2022 (Peak to peak dates).



2.2 Proclivity to stagnation

² It can also be reasonably argued the era began earlier under the Carter administration (1977-1981) which inaugurated both the turn to deregulation and making low inflation the dominant priority of monetary policy with the appointment of Paul Volcker as Federal Reserve Chairman. In the UK, the era began in 1979 with the election victory of Margaret Thatcher.

³ Business cycle #4 was interrupted by a brief but very deep two-month recession in 2020 owing to the covid pandemic shutdown. Figure 1 ignores this and terms the recession an interruption. That captures better the place and character of the pandemic in terms of telling the economic story of the Neoliberal era.

Early on the cycles exhibited a proclivity to stagnation. The first appearance was the extended fragile recovery in the early 1990s (1991-1995) which saw the coining of the term “jobless recovery”. That was followed by a second period of jobless recovery in the early 2000s (2002-2004), which became full blown stagnation in the fourth business cycle recovery (2009-2016). The causes of stagnation are debated, but for this author they are the rupturing of the link between productivity growth and wage growth, the rise in income inequality, and the accumulating burden of household debt (Palley, 2009; 2012, Chaps. 1, 4, and 8; 2016).

The proclivity to stagnation is mirrored in the time path of the Federal Reserve’s policy interest rate (the federal funds rate) which is shown in Table 1. It shows each cycle peak was marked by a lower cycle high interest rate, and each cycle trough was marked by a lower cycle low interest rate. That trend pattern reflects the secular weakening of the aggregate demand (AD) generation mechanism. After the financial crisis of 2008, the policy interest rate bumped against the zero lower bound (ZLB), marking the arrival of stagnation.

Table 1. Brief history of the federal funds interest rate, June 1981 – April 2020.

Source: Board of Governors of the Federal Reserve.

	High	Low
June 1981	19.10%	
October 1986		5.85%
April 1989	9.89%	
December 1992		2.92%
November 2001	6.51%	
May 2004		1.00%
July 2007	5.26%	
December 2008		0.16%
April 2019	2.42%	
April 2020		0.05%

2.3 Rising debt ratios

A third characteristic of the era is increased debt ratios across all sectors of the economy, as shown in Table 2. That process reflects the reliance on borrowing to fill the gap in AD caused by wage stagnation and increased income inequality. The increase in debt ratios was enabled by financialization which has increased the standing and significance of the financial sector within the economy (Krippner, 2005; Hudson, 2021; Palley, 2007, 2021b). The process of rising debt ratios has now engulfed central bank balance sheets (Palley, 2021b). Thus, quantitative easing (QE) has involved central banks buying private sector financial claims by issuing money (which is a form of government debt).

Table 2. Sector debt-to-GDP ratios.
Source: FRED data and author's calculations.

	Domestic non-financial sector	Federal government	Household	Household mortgage	Household consumer credit	Business	Business corporate
1960	1.39	0.47	0.41	0.26	0.11	0.38	0.27
1969	1.39	0.32	0.46	0.28	0.13	0.47	0.33
1980	1.45	0.29	0.51	0.33	0.13	0.53	0.33
1990	1.90	0.48	0.61	0.42	0.14	0.64	0.44
2001	1.92	0.39	0.75	0.51	0.18	0.65	0.46
2007	2.33	0.43	1.00	0.74	0.18	0.71	0.44
2019	2.56	0.90	0.75	0.49	0.20	0.76	0.48

2.4 Proclivity to financial crisis

A fourth feature of the Neoliberal business cycle is proclivity to financial crisis, and each cycle has had a financial crash or crisis. The first cycle saw the stock market crash of 1987. The second cycle saw the Long-Term Capital Management crisis of 1998 and the bursting of the technology

sector stock market bubble in 2001. The third cycle saw the bursting of the house price bubble in 2007 which triggered the sequence leading to the financial crisis of 2008. The fourth cycle saw the covid induced stock market crash of 2020. Though covid was the cause, financial markets were vulnerable owing to inflated asset prices and high indebtedness generated by the Neoliberal model.

2.5 Need for government to stabilize the economy

A fifth feature of the model is the need for government to provide a floor to the economy and stimulus to revive it. Neoliberalism claims to be a philosophy of *laissez-faire*. The reality is it produces an unstable economy in which busts would produce economic depression were the economy left to itself. Hence, the repeated need for government intervention to save and restart the economy after each bust. That is evident in the pattern of interest rates in Table 1. It is also evident in rising government debt in Table 2, with budget deficits being needed to support AD.

2.6 Increased profit share, decreased wage share, decreased worker share of wages.

A sixth feature of the Neoliberal economy is a redistribution of income toward capital. That redistribution is part of a complex rearrangement of income brought about with the assistance of financialization, and it is illustrated in Figure 2. Capital's share increases at the expense of labor. Within capital's share there is a redistribution toward interest payments brought about by increased indebtedness, and there is also an increase in the financial sector's share of profits. Within the wage share there is a redistribution of the wage bill toward managers' pay (which includes CEO pay).

Figure 2. Financialization and the functional distribution of income.
Source: Palley (2021b).

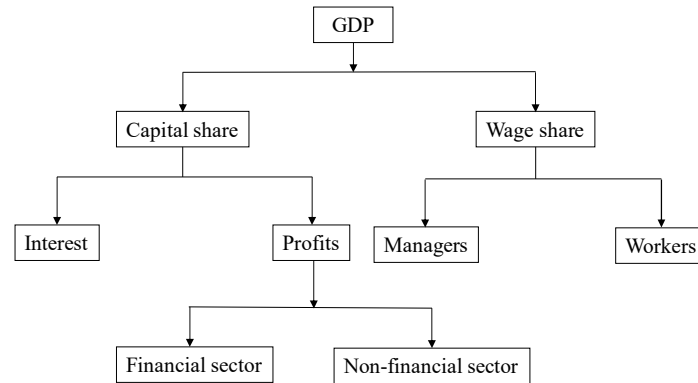
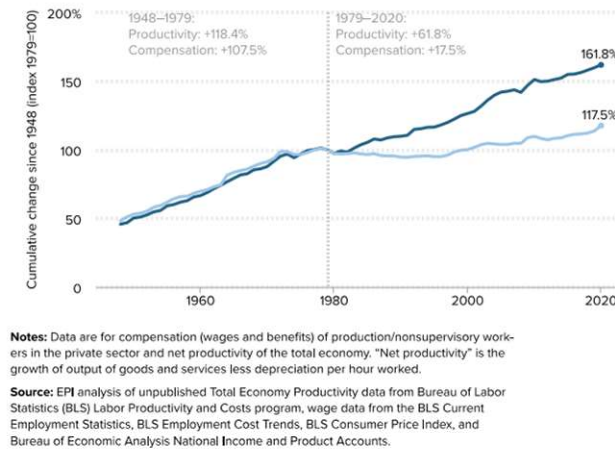


Figure 3 shows the evolution of the pre-tax profit share of domestic industry for the period 1960-2022. From the mid-1960s to 1980, the profit share trended down. That trend was broken in the 1980s, whereafter it shifted to an upward trend that accelerated after 2000. However, profitability is highly cyclical, so it tends to collapse with busts which are increasingly deep, as discussed above. Figure 4 shows the relationship between hourly compensation and productivity for the period 1948 – 2020. The two grew together until 1980. Thereafter, they separated, with hourly compensation falling far below productivity growth. That pattern explains why the wage share fell.

Figure 3. Pre-tax profit share of GDP, 1960 – 2021.



Figure 4. Productivity growth and hourly compensation growth, 1948 – 2020.
Source: Economic Policy Institute.



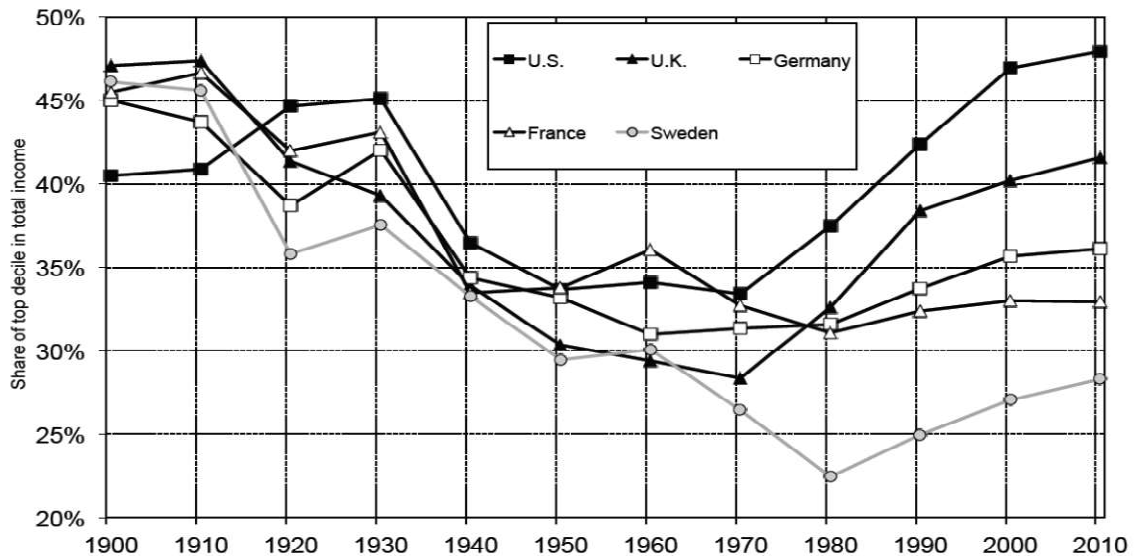
2.7 Increased personal income inequality

A seventh feature of the Neoliberal economy is massively increased personal income inequality, a feature that has been documented by Thomas Piketty (2013). Figure 5 shows the evolution of the top decile income share for the US and selected European countries over the period 1900-2010. The US top decile income share bottomed in 1970 and then steadily rose through to 2010.

A similar pattern holds for European countries, showing the global nature of the turn to Neoliberalism.

Figure 5. The top decile income share in selected European countries and the U.S., 1900 – 2010.

Source: Piketty (2013), Figure 9.7, p.323.

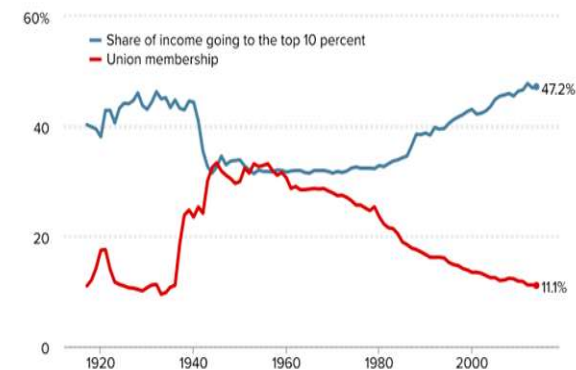


2.8 Accelerated decline of union density.

An eighth feature of the Neoliberal era is accelerated decline of unions, measured in terms of union membership as a share of total employment. Union density in the US peaked in the mid-1950s and then began a slow decline through to 1979. Thereafter, the decline accelerated significantly. In the period up to 1980, union density held its own in sectors where density was high, but aggregate density declined because employment in highly unionized sectors (i.e., manufacturing) grew more slowly than the rest of the economy (i.e., the service sector). After 1980, the decline accelerated as union employment in unionized sectors also started to grow more slowly than those sectors. That changed pattern reflects the new Neoliberal climate which encouraged overt assault on unions. Additionally, Figure 6 shows an inverse relationship between union membership and the top decile income share. That relationship speaks to how

union density contributed to reduced income inequality via two mechanisms. First, increased union density increased the wage share. Second, unions increased the share of the wage share going to workers rather than managers (Jaumotte and Buitron, 2015).

Figure 6. US Union membership and the top 10% income share, 1917-2014.
Source: Economic Policy Institute.



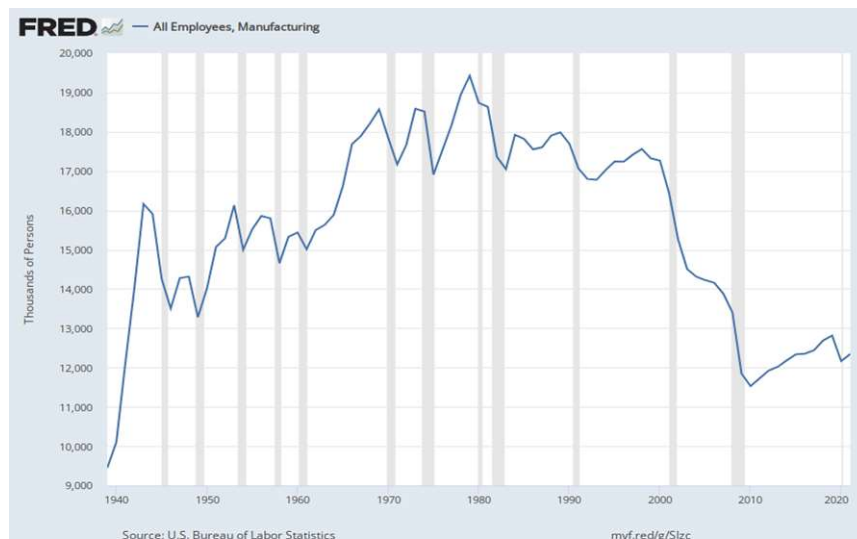
Source: Piketty and Saez (2014), Gordon (2013), and Bureau of Labor Statistics Current Population Survey public data series

2.9 Reduced manufacturing employment

A ninth characteristic of the Neoliberal era is a sharp fall in manufacturing employment, both in absolute terms and as a share of total employment. Figure 7 shows the evolution of manufacturing employment over the period 1939-2021. Manufacturing employment peaked in 1979 and declined thereafter. Since total employment has steadily grown, the manufacturing share of employment has fallen. The manufacturing share of employment was 21.6 percent in 1979 and has fallen to 8.4 percent in 2021. The pattern of that fall is instructive. First, prior to 1980, manufacturing employment rose above its prior peak each business cycle. After 1980, it failed to recover the prior cycle peak. Second, the decline in manufacturing accelerated after 1998. That acceleration reflected the impact of globalization via the 1994 North America Free

Trade Agreement (NAFTA) opening with Mexico and the 2000 Permanent Normal Trade Relations (PNTR) opening with China. Manufacturing job growth would have slowed, and possibly turned negative on its own owing to technological change. However, Neoliberal globalization hugely accelerated and augmented that process.

Figure 7. Total annual average US manufacturing employment, 1939 – 2021.



In sum, the Neoliberal era has seen a dramatic remaking of the US economy. That remaking involved creation of a new business cycle prone to financial crises and stagnation; increased household indebtedness; redistribution of income away from labor that has caused wage stagnation and increased income inequality; evisceration of trade union membership; and evisceration of manufacturing employment. Neoliberalism has benefitted Wall Street and the upper ten percent of the income distribution but it has been very bitter for working class persons.

3. The bitter political fruit of Neoliberalism: some preliminaries

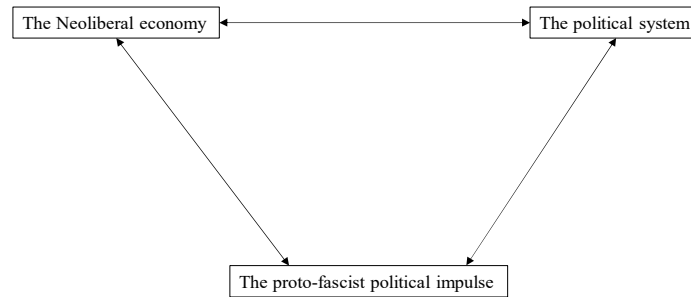
Neoliberalism has also seeded a bitter political fruit, which has received less attention because it was slower to ripen. Whereas the bitter economic fruit was visible over two decades ago for

those willing to look (Palley, 1998, 2002), the bitter political fruit has only become openly visible over the last decade, and it is still ripening. It is related to the bitter economic fruit, as if the latter were needed to pollinate the former.

That bitter political fruit is proto-fascism, the hallmark of which is “triumph of the will” politics. Such politics rest on three elements: a view of politics as total war, a sense of having a greater purpose above the law, and the death of aspiration to truth (Palley, 2021c). Those three elements promote disdain for the rights of others, disdain for law and electoral rules, and destruction of the basis for reasoned resolution of disagreements.

The linkage between the Neoliberal economy and the rise of proto-fascist politics has been both direct and indirect. The mechanics of those impacts are illustrated in Figure 8 which shows a three-way bi-directional nexus consisting of the Neoliberal economy, the political system, and the proto-fascist political impulse. Adverse developments ricochet through the political economic system, multiplying their impact. The political system has promoted the Neoliberal economy, and the Neoliberal economy has promoted Neoliberal political interests. The Neoliberal economy has generated outcomes that have fostered the proto-fascist impulse, which has then impacted the political system.

Figure 8. The nexus between the Neoliberal economy, the political system, and the proto-fascist political impulse.



The current paper focuses on how the Neoliberal economy has fostered the proto-fascist impulse (the left-hand side of the triangle), but the political system has also been an independent source of developments promoting that impulse. The balance of this section briefly discusses those latter developments, which helps show how politics has both directly promoted the proto-fascist impulse and indirectly encouraged it via Neoliberal economic policy.

3.1 A double shift to the political right

Political developments under Neoliberalism are analytically complex. An important point is they have involved a double shift to the right. The first shift was the initial turn to Neoliberalism initiated by Margaret Thatcher and Ronald Reagan. Their political success, the capture of political economic thinking, and the capture of the public's imagination, combined to pull the entire political spectrum to the right and redefine it. That redefinition is evident in the Third Way movement which saw center-left social democracy collapse and redefine itself according to the parameters and terms of debate set by Neoliberalism. Consequently, today's social democrats

would have been deemed center-right in 1980 in terms of their view of the economy, economic policy possibilities, and target economic outcomes.

The second political shift is the turn to proto-fascism that is now being experienced. In the US it is visible in the rise of the politics associated with Donald Trump Republicanism. In Germany it is evident in the rise of the Alternative für Deutschland (AfD) Party. In France it is evident in the surge in the Rassemblement National (RN) Party of Marine Le Pen. In Italy it is evident in the rise of Fratelli d'Italia (FdI) Party. In the UK it is evident in the “very British” type of reactionary politics associated with the Conservative Party of Messrs. Boris Johnson, Truss, and Wallace. It is this second political shift that is the bitter political fruit of Neoliberalism.

3.2 Obsolescence of US political institutions

In the US the advance of proto-fascist politics has been facilitated by obsolescence of political institutions. That obsolescence includes the electoral college system of electing presidents which disregards the popular vote and gives extra weight to relatively unpopulated rural states which exhibit a greater inclination toward illiberal democracy. The same holds for the US Senate in which rural states are grossly over-represented owing to the rule of two senators per state, regardless of population. Another problem is gerrymandering of Congressional district boundaries which results in over-representation of Republicans relative to votes garnered. Those are all serious problems, and the gerrymandering problem has worsened dramatically. However, they have also all long been part of the US political scene, which speaks to them being a facilitating cause. The deep causes concern why those problems have kicked into play now.

3.3 The take-over of existing political parties vs. the rise of new parties

The proto-fascist political impulse has also expressed itself differently across countries. In the US and UK there has been take-over of political parties. In both countries the conservative

parties have been taken over by rightist elements, and the social democratic parties have been taken over by center-right elements. Contrastingly, Continental Europe has seen the rise of new extreme right parties, while the existing parties (especially the social democrats) have all drifted right. Those different patterns are likely the product of different vote counting systems. The Anglo-Saxon countries use the first past the post system, whereas European countries use proportional representation and the run-off election system. The first past the post system entrenches existing parties whereas proportional representation permits the credible rise of new parties.

3.4 Social democrats are also culpable

In the US both the Republican and Democratic Parties have been captured, and both are culpable for the rise of proto-fascist politics, albeit in very different ways and to differing degrees. The role of the Republicans is widely recognized, but the role of the Democrats is barely recognized or understood at all. The same holds for the role of social democrats in Europe.

As argued in Palley (2021c), the US Republican Party elite embraced extreme right-wing politics fifty years ago as part of a Faustian bargain whereby it sold the politics of prejudice and hate as an electoral strategy that enabled it to win elections and advance its Neoliberal economic agenda. That economic agenda then unleashed forces (discussed in Section 4 below) which catapulted such politics, so much so that the old guard Republican elite was displaced by the rising proto-fascist forces within the party. Viewed in that light, the Republican Party did double damage: it green flagged the politics of hate and it also unleashed the destructive political impacts caused by Neoliberalism, about which more below.

The contribution of the Democratic Party is slightly different. Confronted by Neoliberalism's attainment of hegemonic intellectual standing, it embraced a softer version of

Neoliberalism. In doing so, the Democratic Party abandoned its historic modern era social democratic stance and moved from being center-left to being center-right.⁴ However, the Democratic Party's role has not been passive. Its embrace of Neoliberalism has been instrumental in enabling the Neoliberal economic agenda. As noted in footnote 2, President Carter (1977-1981) inaugurated the economic turn to both deregulation and making low inflation the dominant priority of monetary policy. Additionally, Congressional legislative passage of the Neoliberal economic agenda has always relied on a significant bloc of Democratic Party votes. The implication is exclusively blaming the Neoliberal economy on the Republican Party is misleading.

Furthermore, the Democratic Party's capture by Neoliberalism and abandonment of social democracy has created an obstruction to opposing Neoliberalism. That is because the political system is a first past the post two party system, and the Democratic Party occupies the space that should be occupied by a true opposition. The Democratic Party has therefore also done double damage: it helped enable the Neoliberal agenda, and now blocks true opposition.

Viewed in that light, the two parties are twinned. The Republican Party put Neoliberalism on the table and opened the door for proto-fascist politics. The Democratic party has kept it on the table and obstructs a politics that could offer a true alternative.

3.5 Both winners and losers have driven the political shift

As noted earlier, Neoliberalism has created both winners and losers. Broadly speaking, the winners have been owners of capital and professionals, and the losers have been working-class families. There is a narrative that identifies the rise of alt-right politics with the defection of disillusioned working-class voters, thereby tacitly blaming them. That narrative is misleading.

⁴ The same holds for New Labor in the UK which responded similarly to the success of Mrs. Thatcher's

The political shift unleashed by Neoliberalism has involved all segments of society. Neoliberalism originated as an elite-driven economic program, exemplified by the economic agenda of Ronald Reagan. Economic elites have been willing to use right-wing cultural politics as a vehicle for advancing their economic agenda. Those politics have always held appeal for some working-class voters and the appeal of such politics has increased owing to socio-economic distress caused by Neoliberalism, as explained below. Thus, some of the losers may have politically facilitated policies that have hurt themselves, but blame is the wrong lens as there is a complex political economic dynamic behind that support. If many working-class voters have deserted social democracy, there is also a strong case for arguing social democratic political parties deserted them and left them politically adrift.⁵

4. The bitter political fruit of Neoliberalism: the proto-fascist political impulse

The shift to Neoliberalism in 1980 was a political right turn, but it was substantially a turn in economic policy. The analytical challenge is to explain why there has been a second political turn further right, this time involving the character of the political system and the rise of proto-fascist politics.

As argued above, in the US the Republican Party explicitly opened the door for such politics and the obsolescence of the political system facilitated their rise. However, there remains the challenge of explaining why such politics now has widespread appeal and traction. Additionally, there is the challenge of explaining why such politics has traction outside the US.

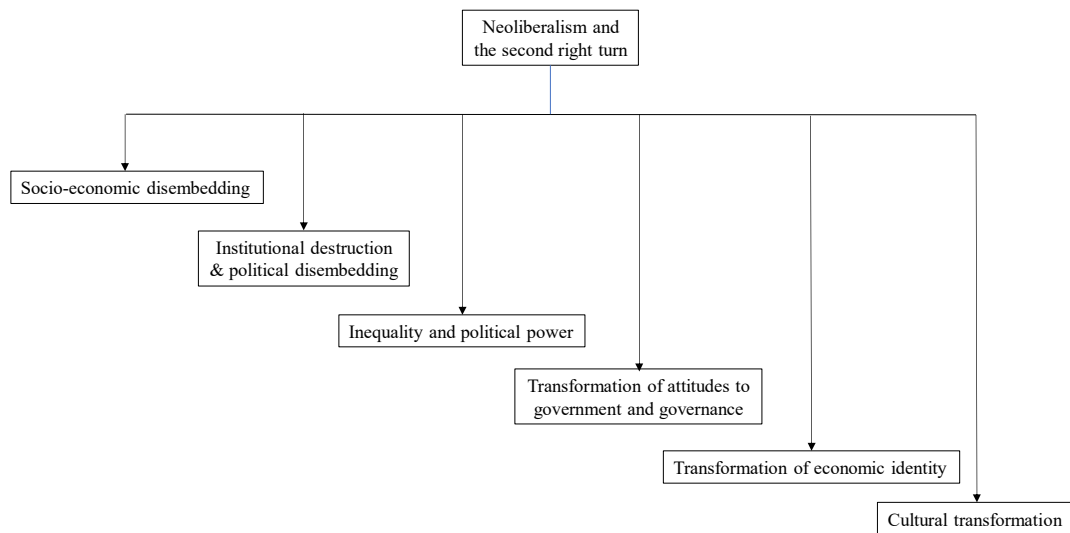
The argument below is the answer is to be substantially found in the consequences of the turn to Neoliberalism. Those consequences are identified in Figure 9 and consist of socio-

Conservative Party.

⁵ For a voter analysis supportive of that claim, see Cohn (2021) who analyzes how white working-class voters have deserted the Democratic Party over the last sixty years.

economic disembedding, institutional destruction and political disembedding, the impact of increased economic inequality on political power, transformation of attitudes to government and governance, transformation of economic identity, and cultural transformation. This section excavates how they have contributed to the second political turn.

Figure 9. Neoliberalism and the deep causes of the second right turn.



4.1 Socio-economic disembedding

The construct of socio-economic disembedding was introduced by Polanyi (1944) in his seminal analysis of the causes of the rise of fascism in inter-war (1919-1939) Europe. That construct has direct relevance to the Neoliberal experience.

The Polanyian model has the economy and economic life being embedded in society, and it is that embedding which gives stability to economic arrangements. Embedding rests on social relations of place, reciprocity, and redistribution which are the primitive characteristics of all societies. Capitalism is characterized by a dialectical process of “double movement” which pits marketization against push for social protection. The process of marketization disembeds by

disrupting those fundamental social relations. In doing so, it creates social dislocation and social alienation. The push for social protection seeks to re-embed and reconstruct those relations.

Polanyi applied that framework to explain the rise of European fascism. The Victorian *laissez-faire* economy disembedded on a grand scale, and the destruction of embedded social relations created uncertainty and resentment which opened people to the pull of other ideas that offered a salve. In Polanyi's words those ideas can be:

“...irrationalistic philosophies, racist esthetics, anticapitalistic demagoguery, heterodox currency views, criticism of the party system, widespread disparagement of the “regime”, or whatever was the name given to the existing democratic set-up (Polanyi, 1944, p.238).”

When the Victorian economy broke down in the inter-war years, and especially with the Great Depression of the 1930s, fascism offered itself as a solution to both the economic breakdown and the problem of disembeddedness. My own interpretation of fascism is that it can be viewed as combining Polanyi's double movement into a single step, providing both a fix of the economic problem and restoring social standing to the disembedded. However, it is profoundly pathological in both the character of its appeal and its solution:

“The fascist solution of the *impasse* reached by liberal capitalism can be described as a reform of the market economy achieved at the price of extirpation of all democratic institutions, both in the industrial and in the political realm. The economic system which was in peril of disruption would thus be revitalized, while people themselves were subjected to a re-education designed to denaturalize the individual and make him unable to function as the responsible unit of the body politic. This re-education, comprising the tenets of a political religion that denied the idea of the brotherhood of man in all its forms, was achieved through an act of mass conversion enforced against recalcitrants by scientific methods of torture (Polanyi, 1944, p.237).”

The Polanyian model has clear application to the Neoliberal era. After World War II, social democratic Keynesianism succeeded in re-embedding capitalism. Neoliberalism

constitutes a politically driven process that has worked to dis-embed that reconstructed economy, and with disembedding has come the return of openness to the ideas of fascism, among others.

The evisceration of manufacturing employment (see Figure 7) is one space where disembedding has been clearly present. Not only were jobs lost, but those jobs historically paid above average wages and benefits. In the US, manufacturing also had a special socio-economic place. Throughout the Midwest, many large towns were *de facto* single employer towns, relying on a single large manufacturing plant. When that plant closed, those towns were economically devastated. House values (i.e., workers' major asset) collapsed, multiplier effects were enormous, and the tax base collapsed which undermined public schools and infrastructure. The result was local mini-depressions and the destruction of future economic prospects.⁶

Those manufacturing plants were often unionized, thereby destroying the local union which was an important piece of social capital binding workers together, helping provide political identity and a sense of belonging to a community. Moreover, the evisceration was not restricted to manufacturing workers. The fall out from negative multipliers and the collapse of home values affected the entire community. The factory owners were also affected, as were other business owners who suffered from the collapse of the local economy.

The implication is the disembedding process hits blue-collar workers first, but the ripples reach deep into other socio-economic categories, which helps explain the puzzling range of appeal of the second turn right. The scarring labor market effects have been empirically documented by Autor et al. (2013), Autor et al. (2014), and Autor et al. (2021).⁷

⁶ For a list of cities that were significantly hit see “Rustbelt,” *Wikipedia*, https://en.wikipedia.org/wiki/Rust_Belt. For an impact case study see “What happens to a factory town when the factory closes?” *New York Times Magazine*, May 1, 2019, <https://www.nytimes.com/interactive/2019/05/01/magazine/lordstown-general-motors-plant.html>

⁷ The work of Autor, Dorn, and Hanson is welcome, but several features are noteworthy. First, the job destruction caused by China is labelled a “shock”. It was not a shock. It was the result of a carefully planned remaking of the international economic system. Labelling it a shock directs the eye away from that inconvenient truth. Second, the

As discussed earlier, the collapse in manufacturing employment was tied to globalization and the intentional policy driven expansion of trade and creation of global supply chains. Globalization has also hit employment in other sectors (e.g., back-office activity, call centers, customer support, etc.). That work tended to be outside major urban conurbations, which may have created a geographical overlap that amplified the extent of job loss disembedding.

Even more importantly, the globalization disembedding impulse has come from emerging market and developing country economies. That has made it easy for proto-fascist politicians to fuse the disembedding impulse with racist nationalist themes, the claim being that the injury was inflicted by foreigners not playing by the rules.⁸

4.2 Institutional destruction and political disembedding

The second pillar in Figure 9 refers to Neoliberalism's institutional destruction and political disembedding. The notion of political disembedding complements Polyani's (1944) notion of socio-economic disembedding, and it captures how societal dislocations can leave persons politically disconnected and adrift, with adverse political consequences.

The prime institution devastated by Neoliberalism has been the trade union movement. That has had impacts across many channels. As noted above, it destroyed local working family social capital, amplifying disembedding. It has also negatively impacted wage growth and increased income inequality (see Figures 4 and 6), the political effects of which are discussed below.

consequences of that remaking of the system were logically predictable in advance (see Palley, 1994a, 1994b, 1999) and the impact on jobs and wages was documented in real time (see Bronfenbrenner, 2000; Bronfenbrenner and Luce, 2004; Scott, 2008). All of that was ignored by the economics profession as it was not said by the "right people". Third, even though the damage was logically predictable and evident in real time, the economics profession was able to dismiss the arguments on grounds that the evidence was not available (i.e., the full actual damage had not yet occurred). Now that the damage has occurred, it is treated as "water under the bridge" and economic theory proceeds unchanged.

Another adverse political impact concerns simple raw political power and political capacity. In the post-war era, unions were the bedrock of the Labor Party in the UK, social democratic parties in Western Europe, and the Democratic Party in the US. They provided financial resources, volunteer workers, and increased union voter participation which leaned strongly in favor of those parties.⁹ In return, the parties looked favorably upon union and non-union worker interests and shaped policy accordingly. That configuration provided a worker-friendly political counterweight to the political influence of business and monied elites. Unions were a critical counter-vailing political institution, which went hand-in-hand with their critical counter-vailing economic role.

The evisceration of unions (see Figure 6) undid that political formula, with multiple negative political consequences. First, it stripped workers of political influence and protection at a time when they needed it more than ever. Second, it weakened Labor and social democratic political parties, making them more susceptible to capture by Neoliberal thinking which was increasingly hegemonic in society (viz., the Third Way movement). Third, the weakening of the left parties implicitly increased the relative strength of political parties of the right.

Putting the pieces together, there was a parallel form of “political disembedding” whereby traditional left voters lost contact with the historic parties of the left, and those parties also migrated to the political right. That meant those voters were unanchored and open to the appeal of other sirens. With the economic policies of political parties increasingly resembling a choice between Tweedledum and Tweedledee, many workers abandoned politics as evidenced by declining voter turnout. Others turned to politicians who appealed to right-wing prejudices

⁸ The US Democratic Party is culpable in this regard. It helped design the globalized economy, but it has persistently sought to escape responsibility for its actions by claiming foreign “cheating” is the cause of the problem. That has tacitly fed the racist nationalist political narrative.

⁹ Those political characteristics of unions are documented by Banerjee et al. (2021).

(i.e., nationalism, racism, and religious fundamentalism) that resonated with personal values (i.e., guns, bible, and flag), according to the principle that something is better than nothing.

4.3 Inequality and power

The third pillar in Figure 9 refers to Neoliberalism's impact on inequality and political power. As shown in Figure 5, the Neoliberal era has resulted in massively increased income inequality. That increase in inequality has increased the political power of business and the wealthy. Bluntly put, those groups get the policies they want, as empirically documented by Bartels (2008) and Gilens (2012).

That has had both economic and political consequences. At the economic level, it sets up a feedback loop whereby Neoliberal changes in the economy increase inequality and tilt political power, reinforcing and augmenting the initial Neoliberal policy impulse. At the political level, it encourages a sense that politics is rigged, producing alienation from the political establishment that deepens "political disembedding". Alienated by and adrift from the political establishment, voters are more open to the narratives of the alt-right. That is true of both the US and Western Europe. The irony in the US is that alt-right narrative has been carried by a corrupt billionaire who has benefitted from the Neoliberal policy regime.¹⁰

4.4 Transformation of attitudes to government and governance

The fourth pillar in Figure 9 refers to Neoliberalism's transformation of attitudes to government and governance. Neoliberalism paints government as both a political and economic problem. The political critique asserts that government is a threat to liberty. That critique was articulated by Hayek (1944) in his celebrated polemic against government titled *The Road to Serfdom*. The

¹⁰ Trump's political success is the product of the Republican Faustian bargain of fifty years ago (Palley, 2021c). The bargain was struck by President Nixon who offered "red-meat" politics in return for getting the pro-corporate Neoliberal agenda in place. Now, the "red-meat" political base has taken over the party, but it has stuck with the Neoliberal economic agenda thus far. Trump fits the profile for that political configuration.

economic critique was substantially developed by the Chicago School of Economics which framed it as “government failure”. The argument is attempts by government to remedy market failures (e.g., monopoly or externalities) often result in even larger and more costly economic problems.¹¹

Those twin political and economic critiques have contributed to a transformation of attitudes toward government. They portray government as being a problem and encourage animus toward government. In particular, the Neoliberal critique of government argues for minimalist government. In place of activist “big” government, Neoliberalism argues for inactivist “small” government that is restricted to essential functions.

Two essential functions are provision of national defense and provision of law and order. Military spending is warranted on grounds that national defense is a public good that markets are unable to provide efficiently. Law and order are needed for a market economy to function. The market economy needs security of person, security of property, and integrity of contract. Government provides those features in the form of policeman, judge, and jailer. Military spending and law and order are both activities and themes fascist polities have also emphasized historically.

Side-by-side with transformation of the purpose of government, Neoliberalism has also transformed attitudes to the character of governance. In place of compassionate supportive governance which accompanies the welfare state construction of government (for instance, as

¹¹ The government failure critique is multi-faceted. Friedman (1961) argued that macroeconomic policy was prone to implementation lags so that policy interventions often worsen outcomes owing to mistiming. Niskanen (1971) argued that government policy is prone to bureaucratic capture so that it comes to serve the interests of bureaucrats rather than the public. Stigler (1971) argued that regulation is prone to capture by the regulated so that it often provides corporations with a means of consolidating their monopoly power rather than diminishing it. Kruger (1974) argued that government intervention sets up a rent-seeking dynamic whereby business lobbies government for policy interventions that benefit them, but which distort the economy. Lastly, Lucas (1976) and Barro (1974) argued

articulated by the *Beveridge Report* of 1942), Neoliberalism pushes punitive governance. That punitive approach is reflected in Becker's (1968) classic paper on the economics of crime and punishment. The focus is deterrence, apprehension, and punishment. The logic is lowering the expected net benefit of crime (via increased probability of apprehension and increased severity of punishment) lowers the incidence of crime. That frame dovetails with the law and order function of government emphasized by Neoliberalism.

Furthermore, punitive governance is exercised in favor of the *status quo* and mobilized on behalf of the economic "haves" and "winners". That *status quo* bias stems from Neoliberalism's analytically deep-rooted animus to redistributive government. First, property rights are sacrosanct which speaks politically against redistribution. Second, according to Neoliberal economic theory redistribution introduces costly economic inefficiency by distorting incentives, and it also risks costly government failure.

In sum, Neoliberalism constructs both government and governance in ways that echo fascist politics. Regarding government, it emphasizes minimalist government that concentrates on military spending and law and order. Regarding governance, it tacitly emphasizes punitive governance that is mobilized on behalf of the *status quo* and propertied interests. There is a knife-edge quality to Neoliberal discourse on government. On one hand, it can be interpreted through the lens of libertarian utopianism. On the other hand, when placed in the context of real-world conflicting interests and resentments at inequality and disembedding, the discourse easily lends itself to capture by authoritarian and proto-fascist politics. That capture is facilitated by Neoliberalism's impacts on economic identity and culture which are discussed next.

4.5 Transformation of economic identity

systematic macroeconomic policy (i.e., monetary and fiscal policy) is substantially less potent than claimed by

The fifth pillar in Figure 9 refers to Neoliberalism's transformation of economic identity, which has then impacted political identification. Ironically, though Neoliberalism has hurt working families, it may also have built political support among some of its victims who have been psychologically transformed and come to economically identify with it.

There are several ways in which economic policy has worked to foster that transformation of economic identity (Fligstein and Goldstein, 2015; Palley, 2020, 2021b). Policy has encouraged homeownership, and it has also encouraged new retirement saving arrangements (e.g., 401K plans and Individual Retirement Accounts) whereby people are direct investors in the stock market via defined contribution pension saving plans. As homeowners, people are supportive of policies (e.g., tax deductible interest, easier mortgage credit access, low interest rates) that inflate house prices. As direct investors, their interests get tied to the stock market and they may come to identify with financial interests. More generally, policy has used the tax code to provide subsidies for a wide range of necessities and merit goods (e.g., housing, healthcare, education), thereby peeling persons away from identifying with and supporting collective provision of such goods and services.

In effect, Neoliberal policy may transform people's identities, and workers may feel split regarding their roles as workers, homeowners, and investors. That echoes Marcuse's (1964) "one-dimensional man" problematic. For Marcuse, the problematic was consumerism's corrosive and captivating effect on working class understandings of capitalism, whereby workers lose their bearings and become defenders of the system that oppresses them. With Neoliberalism, the problematic is ownership. Thus, workers may become indebted homeowners and small-scale investors, and that may cause them to identify with the interests of property and capital.

That identification can have adverse political consequences. First, it may encourage workers to vote for Neoliberal political parties which are also the promoters of an increasingly prejudiced and intolerant brand of politics. Initially, the promotion of that brand of politics may have been tactical and opportunistic. However, now that parties of the right have been captured by proto-fascist elements, it reflects deep-seated belief within those parties.

Second, an ownership identity may encourage a proto-fascist identity. Fascism is a deviant form of corporatism whereby the state and business come together, and labor is suppressed. Racist nationalism replaces labor (i.e., trade unions), creating a *faux* tri-partism. Political identity confusions caused by ownership may facilitate such politics by having workers identify with that political configuration. Workers retain their nationalist identity but become disconnected from their working-class interests.

4.6 Cultural transformation

The sixth pillar in Figure 9 refers to Neoliberalism's transformative impact on culture and thinking. That impact operates through the political economic philosophy it proselytizes. This is a critical aspect in the second right turn, and it has been substantially overlooked in political economic discourse.

As noted at the outset, Neoliberalism is a political economic philosophy and its tenets now infuse society, up and down. It claims to promote "individual liberty", but the argument below is that it encourages egotistical disdain for individual liberty and promotes a "triumph of the will" mentality which is at the core of fascism. *Triumph of the Will* is the title of Leni Riefenstahl's 1935 propaganda film celebrating the Nazi Party Congress in Nuremberg.

Neoliberalism's political economic claims rest on Neoclassical economics' construct of *Homo Economicus*, which has been extensively applied by Gary Becker's branch of the Chicago

School of Economics. *Homo Economicus* is represented as the ultimate expression of individualism, but he is really a fascist personality. He is a sociopathic egotist who is unrestrained in what he does except by his budget constraint, the deterrence of law, and the deterrence of the economic cost of loss of reputation.¹²

The fascist becomes visible when *Homo Economicus* is viewed relationally. The egotistical sociopath seeks to get his way by asserting his will over others. That is the view of the individual in Ayn Rand's (1957) novel *Atlas Shrugged*. Rand's view is a form of fascist egotism, and it is widely admired and celebrated in the US. Former Federal Reserve Chairman Alan Greenspan identifies with it, and across the US students are captivated by it. In cinematic culture, it is captured in the movie *Wall Street* by the less noble lead protagonist Gordon Gecko, with his creed of "Greed is good".

Mainstream neoclassical economics is a mainspring of intellectual inspiration for Neoliberalism, and it is deeply implicated in this cultural transformation. As documented by Frank et al. (1993), there is substantial experimental evidence that exposure to Neoclassical economics is behaviorally transformative. It appears to diminish honesty and cooperative behavior, encourage free-riding, and weaken the charitable impulse.

The economics profession has high social standing, as reflected in talk of economics being "the queen of the social sciences". It takes the *Homo Economicus* characterization of people as primitive and endorses the *laissez-faire* economy as the ideal economy. Those ideas are given legitimacy and infused in undergraduate education and business schools, thereby rippling throughout society, influencing public policy and the way society thinks.

¹² Reputation is valuable when agents do repeated transactions with another person or group. In that situation, agents have an incentive to behave well to maintain their reputation and retain the possibility of future transactions.

The net result is the ideology of Neoliberalism has transformed society's thinking and that transformation has bitter political implications. Though claiming to promote individual liberty, it promotes a "triumph of the will" thinking that is threatening to liberty. It also promotes an economy that disembeds people, thereby opening them to the proto-fascist message that offers its own pathological socio-psychological re-embedding. Mainstream economists may decry the turn to proto-fascism, but their political economic theory and teachings are causally implicated in that turn.

Lastly, though Neoliberalism destroys social democratic solidarity, it also creates its own solidarity. That solidarity rests on the ideology of egotism and triumph of the will, combined with group psychology. The egotistical individual still needs recognition and validation. That is provided via a culture that esteems money and wealth, and via group identity (e.g., nationalism) which unites individuals against an "external other". The result is a fascist solidarity based on financial domination of one's fellow citizens and antipathy to the other.

5. Conclusion: Neoliberalism and the capture of social democracy

The above channels explain how Neoliberalism has produced conditions conducive to the bitter fruit of proto-fascism. Those channels include changed external economic conditions, changed belief systems, and changed internal psychological conditions. However, the bitterest fruit of all is Neoliberalism's capture of the political parties of the center-left. That capture reflects Neoliberalism's intellectual hegemony, and it is represented by the Third Way movement associated with US President Bill Clinton, UK Prime Minister Tony Blair, and German Chancellor Gerhard Schroder. The Third Way advocates compassionate Neoliberalism or soft-core Neoliberalism (Palley, 2012, Chap. 3), whereby it accepts the substance of Neoliberalism's argument but seeks to soften market outcomes with modest social protections.

Neoliberalism's capture of center-left political parties via the Third Way movement has had three bitter impacts. First, it meant center-left parties helped construct and legitimize the Neoliberal economy which has done so much damage. That has been true regarding globalization, the shareholder value maximization paradigm of corporate governance, deregulation, financialization, diminished progressivity of the tax system, the retreat from commitment to full employment, and the adoption of a new macroeconomic paradigm based on asset price inflation and increased household debt. There has also been disregard for unions, so that Third Way politicians have tacitly abandoned the historic political base of the center-left. In a sense, Third Way politics has turned the center-left into a junior partner of the center-right.

Second, by endorsing the Neoliberal model, the Third Way has fostered political confusion and alienation among working-class voters. The capture of the center-left further impoverished political capability for engaging issues of class and class conflict, which was already difficult owing to the political dynamic created by the Cold War. In effect, the lack of a center-left pro-worker political program contributed to making "values" the dominant frame of political competition, and many US working-class voters may have defected to voting their values of "guns, bible, and flag".

Third, and most bitter, the Third Way's capture of center-left political parties means Neoliberal thinking now tacitly dominates both sides of the political aisle. Consequently, the Third Way obstructs an alternative to Neoliberalism. Third Way liberal elites occupy the place of opposition that should be held by true critics, which obstructs the politics needed to reverse the deep causes of the drift to proto-fascist politics. Though unintended, that renders liberal elites a real danger.

Neoliberalism's capture of the political imagination has shifted the political spectrum to the right and compromised social democratic politics. Worse yet, it has been a Trojan horse in that it has opened the door for proto-fascist politics while claiming to promote liberty. An essential step for reversing the drift to proto-fascism is exposing Neoliberalism's flawed claim to enhance and protect liberty.

Part of that is breaking with Neoclassical economics which is an intellectual mainspring of Neoliberalism. In its place is needed understanding of the political economic arrangements that support both shared prosperity and democratic open society. The intellectual challenge is to articulate the analytical foundations of such arrangements. The political challenge is to make them the centerpiece of national political discourse.

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