

# NEOLIBERALISM AND NEOCLASSICAL ECONOMICS

I'm new here as a poster, so I'll start by describing my interests. As you may know from my work at Firedoglake under the name masaccio, I'm interested in the way the economy actually works. That's why I like the work done by Thomas Piketty and his colleagues on wealth and income inequality: he has collected, refined and organized huge piles of data and made both that data and his analysis public. Piketty's book, *Capital in the Twenty-First Century*, tells us that we can and should insist on data as a source of analysis, not the enormous array of cute stories mainstream economists like to tell us from their armchairs. Trickle-down, life-cycle consumption, pay based on marginal productivity, free markets, and most of the neoclassical economics taught in Econ 101 to pretty much the entire college population for decades, all of them are clever, easily explained in sophomore level calculus, and wrong.

The two parties cooperated to implement self-regulating financial markets, both through the gradual abolition of Glass-Steagall, and to gut regulatory agencies. They laid the groundwork for the Great Crash, and the cheats and thugs on Wall Street did the rest. Then the elites and their pet economists insisted that the solution lay in pumping money into the banking system with no thought of criminal investigation, let alone prosecution, and only the weakest forms of re-regulation, insuring that the criminals would not be deterred and would have plenty of ways to bring on the next disaster.

US voters were angry about the bailouts, but

their wrath turned onto the victims of the fraudulent lending schemes and the interest rate swaps and the other financial innovations that the Alan Greenspans and Robert Rubins enthusiastically supported. Does your city or your school district have an interest rate swap? I live in Chicago, and our school district has a bunch. The Chicago Tribune estimated they will cost us \$100 million that should be going to education but instead is going to the con artists on Wall Street. The cuts to education here are painful and unnecessary. The same is true all over the country

But it was bad luck homeowners who really got cheated. First, there were knowingly fraudulent loans, then knowingly fraudulent foreclosures, and now possibly knowingly fraudulent delinquency claims.

The vast majority of the public thinks this is just fine. Screw the victims, help criminal banks is a strange goal, but the worst part is that victims of this economic system frequently do blame themselves.

This outpouring of hostility towards the losers in the economic struggle should be seen as a natural consequence of neoliberalism. In that worldview, the market is an indifferent referee, doling out rewards to the successful, and pushing the losers off the playing field into the outer darkness. Everyone is required to be the entrepreneur of themselves, investing their money or their parents' money or borrowed money in their own human capital in the hopes of beating out some other poor bastard for some bad job that pays poorly. If they win, they might get to retire. If they lose, there's always bankruptcy, except for taxes and student loans, and they are trash. It's a bleak world.

Neoclassical economic theory is the linchpin of neoliberalism. It provides a theoretical underpinning for the harsh world it envisions. In this world, humans are seen solely as consumers and producers. These calculating creatures are rational optimizers, constantly

using the markets to achieve their own personal highest utility. It's an evil, reductive idea, but notice how well it corresponds to the self images of the people described by Jennifer Silva in her book *Coming Up Short*, which I discussed here. The encouraging thing about the people Silva talked to is that they see themselves as having agency, they see themselves as having problems, but they are convinced they can do something about those problems.

The middle class is shrinking. Social class mobility is falling. But no one seems interested in the possibility that the economic system is the problem. The Republicans love it, and the Democrats do too, only not quite as much: they offer timid solutions like Elizabeth Warren's suggestion that we reduce the interest rate on student loans, or increase the minimum wage to \$10.10 per hour. These are not the kinds of changes that will make a significant difference in anyone's life. They will do nothing to dilute the power of the richest 16,000 US families. And yet these represent the extreme left in politics.

In the 1920s, there was widespread intellectual ferment around alternatives to capitalism, socialism and communism, and that forced questions about capitalism to the surface. As the Great Depression deepened, the rich and politicians were afraid that the working class and the unemployed would find those ideas superior to capitalism. Eventually they were forced to compromise a tiny bit, creating a more or less regulated system of markets. Even the conservative hacks on the Supreme Court (the Court is full of conservative political hacks almost all the time), bent to the will of the people, and allowed a range of FDR's initiatives to stand. In some cases, for a while, the hacks even enforced those laws, though that ended years ago.

Partially regulated capitalism was a major force for the creation of what Piketty calls the Patrimonial Middle Class. This group, 40% of the

population, roughly the 50<sup>th</sup> to 90<sup>th</sup> percentiles of wealth, at one time had enough wealth to live comfortably in retirement and leave an inheritance to their children. That group is dwindling. The bottom 50% of the population has little or no net worth. Piketty calls them the Lower Class. The top 10% he calls the Upper Class and the top 1% he calls the Dominant Class. The Upper class is taking all the money produced by the economy. These are the people who can make major donations to politicians and thus acquire influence they can turn to their cash benefit.

The Lower Class is becoming more and more angry as the recovery stomps their faint hopes into the dirt. The Middle Class is shrinking, and I hope is beginning to think that maybe it's not their fault. Things won't change until enough people figure out the connection between the economic myths they've been taught and the social and political institutions that enforce those myths, and structure their understanding of their place in the world. If Silva's people are right, if Middle and Lower Class people do have agency, and if they learn to see through the smoke and mirrors of the neoliberals and their academic lapdogs, they can enforce demands that will actually improve their lives.

I like to think of this process as the way you'd peel an octopus off an aquarium wall: one tiny sucker at a time. Eventually it comes off, but it's a lot of work, and the octopus resists with all its strength.

which is Piketty's actual term