

Setterfield, Mark

Working Paper

Managing the discontent of the losers redux: A future of authoritarian neoliberalism or social capitalism?

FMM Working Paper, No. 98

Provided in Cooperation with:

Macroeconomic Policy Institute (IMK) at the Hans Boeckler Foundation

Suggested Citation: Setterfield, Mark (2024) : Managing the discontent of the losers redux: A future of authoritarian neoliberalism or social capitalism?, FMM Working Paper, No. 98, Hans-Böckler-Stiftung, Macroeconomic Policy Institute (IMK), Forum for Macroeconomics and Macroeconomic Policies (FMM), Düsseldorf

This Version is available at:

<https://hdl.handle.net/10419/297861>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/legalcode>

FMM WORKING PAPER

No. 98 • January 2024 • Hans-Böckler-Stiftung

MANAGING THE DISCONTENT OF THE LOSERS REDUX: A FUTURE OF AUTHORITARIAN NEOLIBERALISM OR SOCIAL CAPITALISM?

Mark Setterfield¹

ABSTRACT

Neoliberalism eviscerated the value-sharing ethos of the post-war Golden Age (1945-73), seeking to maintain social cohesion in civil society by 'managing the discontent of the losers'. This involved reconciling working households to the realities of the neoliberal labour market by means of coercion, distraction, and debt accumulation - the latter serving to limit the growth of consumption inequality in the face of burgeoning income inequality. The global financial crisis (GFC) and Great Recession undermined the process of household debt accumulation, creating a crisis of neoliberal accumulation. Key to the institutional renewal required to address this crisis will be managing the discontent of the losers inherited from the neoliberal era. One possibility is Authoritarian Neoliberalism, based on increasingly illiberal amplification of the 'coerce and distract' elements inherited from the Neoliberal Boom (1990-2007). The only viable alternative is Social Capitalism. This involves a renewal of social democracy that manages the discontent of the losers at its source, by creating inclusive and sustainable growth that both reduces the need and desire for illiberalism in the sphere of civil society.

¹ Department of Economics, New School for Social Research, USA; FMM fellow.
mark.setterfield@newschool.edu

Managing the Discontent of the Losers Redux: A Future of Authoritarian Neoliberalism or Social Capitalism?

Mark Setterfield*

January 8, 2024

Abstract

Neoliberalism eviscerated the value-sharing ethos of the post-war Golden Age (1945-73), seeking to maintain social cohesion in civil society by ‘managing the discontent of the losers’. This involved reconciling working households to the realities of the neoliberal labour market by means of coercion, distraction, and debt accumulation – the latter serving to limit the growth of consumption inequality in the face of burgeoning income inequality. The global financial crisis (GFC) and Great Recession undermined the process of household debt accumulation, creating a crisis of neoliberal accumulation. Key to the institutional renewal required to address this crisis will be managing the discontent of the losers inherited from the neoliberal era. One possibility is Authoritarian Neoliberalism, based on increasingly illiberal amplification of the ‘coerce and distract’ elements inherited from the Neoliberal Boom (1990-2007). The only viable alternative is Social Capitalism. This involves a renewal of social democracy that manages the discontent of the losers at its source, by creating inclusive and sustainable growth that both reduces the need and desire for illiberalism in the sphere of civil society.

JEL codes: E21, B51, B52, P16

Keywords: Social structure of accumulation, capital-citizen accord, household debt, inequality, populism

*Professor of Economics, New School for Social Research; email mark.setterfield@newschool.edu. I would like to thank the Open Society Foundation and Hewlett Foundation grants *Beyond Neoliberalism and Neo-Illiberalism* for funding that helped to support this research. An earlier version of the paper was presented at the conference *Beyond Neoliberalism and Neo-Illiberalism: The Democratic Challenge and the Future of Capitalism*, The New School For Social Research, New York, November 6, 2023. I would like to thank conference participants for their helpful comments. Any remaining errors are my own.

“Our lives are shortening, our wellbeing is falling, our security being dismantled.
These are the conditions of despair, and a bitter harvest beckons”
Owen Jones, *The Guardian*, Wednesday April 5, 2023.

“Loss sometimes curdles into fury and hate or denial and delusion”
Jeff Sharlet, *The Undertow: Scenes from a Slow Civil War*, W.W. Norton, 2023

“You have to see somebody suffer other than yourself”
The Icicle Works, *Up Here in the North of England*, Situation Two, 1986

1. Introduction

This paper draws on social structure of accumulation theory (SSAT) to characterize the Neoliberal Boom (1990-2007) in the US economy as an institutionally-distinct ‘stage of capitalism’ that, since the global financial crisis (GFC) and Great Recession of 2007-09, has entered a phase of crisis that requires institutional renewal.¹ It is argued that whereas the post-war Golden Age (1945-73) was based on a social contract that balanced the interests of capital with those of workers (at the point of production) and participatory democracy (in the sphere of civil society), neoliberalism eviscerated the value-sharing ‘capital-labour accord’ at the point of production and sought social cohesion in civil society through a process of ‘managing the discontent of the losers’. This involved reconciling working households to the realities of the neoliberal labour market by means of coercion, distraction, and debt accumulation – the latter serving to limit the growth of consumption inequality in the face of burgeoning income inequality.

However, the process of household debt accumulation was undermined by the GFC and Great Recession. Key to the institutional renewal required to address this crisis is managing

¹The term ‘social structure of accumulation’ is used here as a portmanteau term to capture what, in other (companion) literatures, is referred to as a ‘mode of regulation’ (Boyer, 1990) or ‘institutional framework’ (Cornwall, 1990). It refers to a constellation of institutions that ameliorate the conflict and uncertainty endemic to capitalism by mediating certain key economic activities and relationships and in so doing, creating conditions conducive to successful macroeconomic performance.

The focus in what follows is the US economy, but references will also be made to neoliberalism in other advanced capitalist economies.

the discontent of the losers inherited from the neoliberal era. One possibility is Authoritarian Neoliberalism, which amplifies the ‘coerce and distract’ elements of the preceding regime. At present, mainstream center-left parties seek to oppose this possibility by emphasizing its illiberalism. But re-asserting liberal values – while innately valuable – does not manage the discontent of the losers, and is therefore doomed to fail. The only viable alternative to Authoritarian Neoliberalism is Social Capitalism: a renewal of social democracy that allies capitalist forces of production to social relations of production designed to foster inclusive and sustainable growth. Social Capitalism manages the discontent of the losers at its source, by altering the balance of power in both the labour market and civil society. By thus creating a ‘tide that lifts all boats’ in the economic sphere, it reduces both the need and desire for illiberalism in the social sphere, and so provides a basis for renewing liberal democracy.

The remainder of the paper is organized as follows. Section 2 outlines the neoliberal capital-citizen accord as originally envisaged by Houston (1992), and the critique of this vision due to Setterfield (2020). Section 3 describes the current crisis of this accord. Alternative approaches to institutional renewal in contemporary capitalism are then explored in section 4. Authoritarian Neoliberalism is described as a project that seeks to renew neoliberalism by finally instituting the sort of coercive and divisive capital-citizen accord originally envisaged by Houston (1992). Social Capitalism, meanwhile, is presented as a coherent and politically viable project that seeks to transcend neoliberalism, simultaneously embracing social democracy in the economic sphere (so as to *eliminate* the discontent of the losers) and liberal democracy in the social sphere. The final section of the paper offers some conclusions.

2. The neoliberal capital-citizen accord

A capital-citizen accord is “a set of norms and conventions that create social cohesion by ameliorating potential conflict between capital (which is organized around a command structure

based on ownership and managerial control) and the citizenry, who expect to be involved in self-governance through mechanisms of participatory democracy” (Setterfield, 2020, pp.77-8). According to Houston (1992, pp.62-4), the neoliberal capital citizen accord took a very particular form that involved ‘managing the discontent of the losers’, in direct response to the propensity of neoliberalism, as a stage of capitalism, to create economic winners and losers. Part of this process was explicitly *coercive*, the best example being the mass incarceration of young, and especially black, males in the US. According to the World Prison Brief published by the Institute for Criminal Policy Research (www.prisonstudies.org), the rate of incarceration in the US is among the highest in the world: 655 inmates per 100,000 residents in 2016, as compared with a world average of 172 inmates per 100,000 residents, and 80-140 inmates per 100,000 residents in large European countries and Canada. Moreover, incarceration is disproportionately the fate of black males. Hence according to Pettit and Western (2004), among those born between 1965 and 1969, 20 percent of black men had served time in prison by their early thirties as compared with just 3 percent of white men, the rate of incarceration of black men in the study rising to 30 percent of those without college education and almost 60 percent of those who failed to complete high school.

A second aspect of managing the discontent of the losers involves *consensus-building*, but on the basis of divisive social issues that, by their nature, complement the coercive element of the neoliberal capital-citizen accord and act as a source of *non-economic distraction*. This is exemplified by escalating social politics that re-focus attention away from the economy and towards issues such as gun ownership, nationalism, religion, and racial and/or ethnic identity. This is not to say that issues such as gun ownership or racial identity are not important issues in their own right, but that increasing emphasis on such issues, coincident with simultaneous failure to admit and address pressing economic problems afflicting the majority of working households, has been an important feature of neoliberalism. In this way, these issues serve an instrumental role as non-pecuniary ‘offsets’ to the disadvantageous material realities of

neoliberal labour markets, giving them a hegemonic role in the process of managing the discontent of the losers that involves the provision of ‘less bread and a lot more circus’ Setterfield (2020, p.82).

In short, and according to Houston (1992), managing the discontent of the losers involves reconciling the outcomes borne of neoliberal labour markets (low wage growth, re-assertion of capitalist control of the workplace, and heightened employment insecurity) with continued active consent for capitalism (and hence social stability), by means of both explicit coercion and ‘divisive consensus building’ focused on sources of non-economic distraction. But according to Setterfield (2020), this account of the neoliberal capital-citizen accord is incomplete, because the latter also rested (in part) on a hidden material basis. Hence while the neoliberal capital-citizen accord had both coercive and consensual dimensions per Houston (1992), the consensual dimension itself had both ideological and material bases. A key component of the latter was the ability of households to accumulate debt to limit the growth of *consumption inequality*, despite their experience of burgeoning income inequality. Hence a well-established theme in heterodox macroeconomics is that household debt accumulation enabled the growth of consumption spending to exceed household income growth during the 1990-2007 Neoliberal Boom (Palley, 2002; Cynamon and Fazzari, 2008; Brown, 2008; Barba and Pivetti, 2009). In effect, aided and abetted by rising house prices and the changed relationship between households and financial markets (on which see, for example, Cynamon and Fazzari, 2008; Stockhammer and Wildauer, 2018), working- and middle-class households borrowed in order to offset the negative consequences for their consumption spending of the structural stagnation of their real (wage) incomes. The contribution of this behavior to demand-formation and hence economic growth is the traditional focus of the literature just cited: in the absence of household debt accumulation (and thinking along traditional Keynesian lines), the secular redistribution of income away from high-spending, less affluent households towards lower-spending, more affluent households would have caused demand-

formation and hence growth to atrophy. But according to Setterfield (2020), household borrowing had a second effect. It provided working- and middle-class American households with (temporary) refuge from the full material consequences of the trend towards increasing income inequality. In so doing, household debt accumulation made an important contribution to social cohesion. By holding at bay the effects of neoliberalism on final consumption outcomes, it kept alive belief in the ‘American Dream’.

3. The neoliberal capital-citizen accord in crisis

Given the role attributed to household borrowing in the preceding section, it follows that one of the effects of the 2007-09 GFC and Great Recession was to fracture the material basis of the neoliberal capital-citizen accord. As is well known, since the GFC and Great Recession, US households have deleveraged and, as a result of this, the consumption to income ratio in the US – which rose during the Neoliberal Boom as a result of household borrowing – entered a phase of secular decline (Cynamon and Fazzari, 2016; Kotz, 2019).

This is borne out in Figure 1, which illustrates both the debt to disposable income and consumption expenditures to disposable income ratios in the US economy during the neoliberal era. The pattern of rise and decline in the debt to disposable income ratio either side of the 2007-09 the GFC and Great Recession evident in Figure 1a is mirrored by the same pattern in Figure 1b.² The co-movement of the ratios in Figure 1 is consistent with the idea that tighter borrowing constraints and household deleveraging in the wake of the Great Recession have weakened the capacity of less affluent households to protect consumption from the adverse effects of real income stagnation. Reductions in household borrowing among less affluent households since the onset of the GFC and Great Recession have resulted in stag-

²As noted by Cynamon and Fazzari (2016), the behavior of the consumption expenditures to disposable income ratio is driven by the behavior of the bottom 95% of households in the size distribution of income. The ratio for the top 5% fluctuates counter-cyclically about a constant value consistent with consumption smoothing behavior.

nant real incomes finally exerting their previously-latent effects on consumption spending. This, in turn, has exposed working- and middle-class households more fully to the material distress associated with the stagnation of their wage incomes, arising from the workings of the neoliberal labour market. By thus undermining the material basis of the neoliberal capital-citizen accord, the social cohesion associated with this accord prior to 2007-2009 has been eroded.

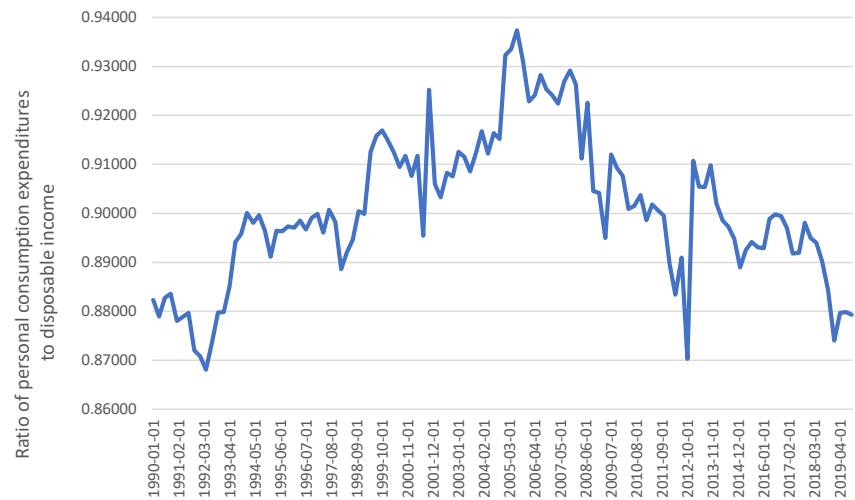
But as the material basis of the capital-citizen accord has withered, so its *ideological* basis (along with the coercive dimension of the accord) has been amplified. In retrospect, it appears that the original vision of the capital-citizen accord outlined by Houston (1992) was not so much *wrong* as *ahead of its time*: the capital-citizen accord has come to bear closer resemblance to its description in Houston (1992) in the period since 2009. This is particularly evident in the anti-communitarian bent of the mechanisms of non-economic distraction described by Houston (1992, p.63), which he understood to involve the celebration of crude self-interest coupled with tolerance of victimization and exclusion – especially racism. As regards the latter, Houston (1992, p.63) drew attention to increasing attacks on affirmative action and the public prominence of David Duke.³ It is now easy to recognize the prescience of this thinking given the increased prominence of anti-communitarian sentiment since 2015 and the advent of the Trump era, during which time renewed tolerance for racism has been joined by encouragement of other strands of victimization and exclusion such as attacks on the LGBTQ+ community and abortion rights. Such divisive consensus building has gone hand-in-hand with more explicitly coercive behaviour. Hence numerous US states have legislated abortion bans since the US Supreme Court's 2022 Dobbs decision, eroding women's rights to make decisions about their own bodies and in some cases denying them access to basic healthcare. Meanwhile, state legislation in Florida has banned gender-affirming care for

³David Duke is a far-right American politician and former grand wizard of the Ku Klux Klan who is best known for his racism and anti-Semitism.

Figure 1: Ratios of Household Debt and Personal Consumption Expenditures to Disposable Income Before and After the GFC and Great Recession.



(a) Debt to Disposable Income Ratio (Source: Author's calculations based on FRB New York and FRED)).



(b) Consumption Expenditures to Disposable Income Ratio (Source: FRED).

minors and public school instruction on gender identity and sexual orientation.⁴ ‘Less bread and a lot more circus’ appears to be a more apt description of the workings of the capital-citizen accord in the environment since 2009 than during the Neoliberal Boom (1990-2007) that Houston (1992) was anticipating.

Indeed, these developments appear to have brought us into what might be termed the end-game of late Thatcherism – where neoliberalism breeds illiberalism, as ‘government by and for wealth’ in the economic sphere goes hand-in-hand with ever-more-divisive ‘culture wars’ in the social sphere.⁵ The purpose of the latter is to prop up the (otherwise tenuous) electoral position of private wealth,⁶ and so maintain the veneer of liberal democracy through what amounts to a ‘tyranny of the majority’ form of *de facto* minority rule. The increasingly-evident danger is that this (seeming) contradiction between liberalism and illiberalism will ultimately resolve into a coherent new regime of Authoritarian Neoliberalism, in which liberalism cedes to authoritarianism in the socio-political sphere (with the veneer of liberal democracy maintained through divisive consensus building and the ‘tyranny of the majority’ at the ballot box), while neoliberalism continues to reign supreme in the economic sphere because (allegedly) ‘there is no alternative’.⁷ To the extent that neoliberalism always could be characterized as an exercise in social control on behalf of wealth (the unequivocal

⁴While related to the explicitly coercive aspect of the neoliberal capital-citizen accord, these developments are also part of a more general trend towards innovation in and the intensification of methods of social control during the period following the breakdown of an SSA. See Barlow and Barlow (1995); Barlow et al. (1993).

⁵The degrees of separation between concentrated private wealth and neoliberal economic and social policies are few. See, for example, “What links Rishi Sunak, Javier Milei and Donald Trump? The shadowy network behind their policies,” *The Guardian*, Saturday January 6, 2024.

⁶The distribution of wealth is so very unequal in capitalist economies that ‘government by and for wealth’ is not, in and of itself, a electorally viable agenda in a majority-rule voting system.

⁷According to Kotz (2003) and Wolfson and Kotz (2010), ‘regulated’ SSAs (in which labour is influential through collective bargaining and the state tempers the influence of capital) tend to alternate with ‘liberal’ SSAs (in which capital holds sway under the guise of the ‘free market’). However, there exists no guarantee of such alternation, especially after the demise of a liberal SSA. As noted by McDonough (2021, p.26), liberal SSAs tend to end in acute crises (such as the GFC and Great Recession) which, in turn, invite what Rey-Araújo (2019, p.14) describes as a ‘populist intervention’: the drawing together of various suddenly unmet demands into a popular identity with no specific ideological content – the current situation in the US (and elsewhere) exemplifying this phenomenon. Hence the possibility, entertained above, that the next SSA will involve a ‘renewal’ of neoliberalism rather than its automatic transcendence.

material beneficiary of the regime), these developments suggest its eventual degeneration into something closer to what Arendt (1973) called an “alliance between the mob and capital”, or what Kalecki (1943) referred to as “a partnership of big business with fascist upstarts”.

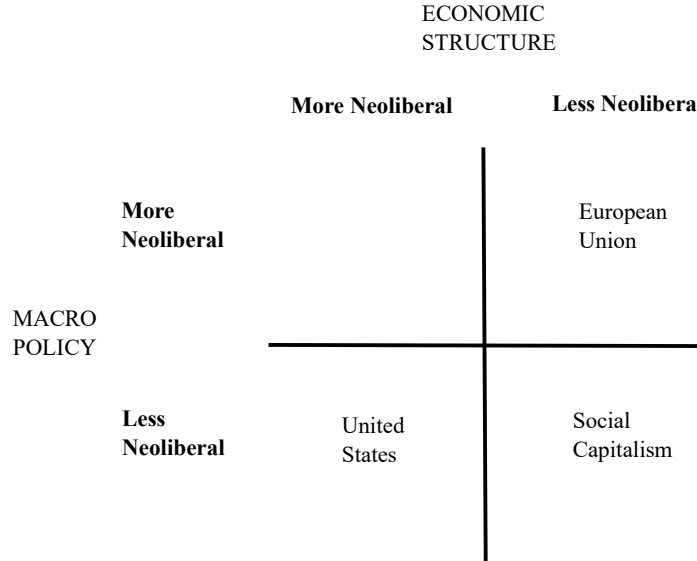
4. Where next? Authoritarian Neoliberalism versus Social Capitalism

Is it really the case that ‘there is no alternative’ to neoliberalism? Or is this a Thatcherite ‘prescription masquerading as description’ that has been made a reality by the complicity of the left and its paucity of vision in the economic policy sphere over the last three decades?⁸

One purported alternative to neoliberalism in the US is to simply make the US ‘more like Europe’. But this overlooks the fact that ‘neoliberalization’ has occurred internationally, albeit to different degrees along different dimensions, giving rise to qualitatively different types of neoliberalism. This is illustrated in figure 2. Neoliberalism in the US has been associated with changes to the structure of the economy regarding free trade, union organizing rights, anti-trust enforcement, and welfare reform. Europe has not neoliberalized to the same degree along this ‘economic structure’ dimension. Its macroeconomic policy, however, has embraced strict limits on the use of fiscal policy (starting with its adoption of the Maastricht criteria and culminating in the widespread institution of austerity policies in the wake of the GFC and Great Recession), and the European Central Bank was founded on mainstream economic principles that suggest it need focus only on inflation when pursuing monetary policy. The US, meanwhile, has not neoliberalized to the same degree as Europe along the macroeconomic policy dimension: it has not hesitated to use robust expansion-

⁸On the complicity of the left in consolidating neoliberalism see, for example, Mudge (2008, pp.721-2), Kotz (2015, chpt.4), and Lichtenstein and Stein (2023). For recent examples of the paucity of vision in the policy sphere to which this has given rise, see, for example, Setterfield (2023, p.605) on failings of the public policy response to inflation during the post-COVID recovery.

Figure 2: Types and Degrees of Neoliberalism



ary fiscal policies in the midst and wake of both the GFC and Great Recession and the more-recent COVID-19 recession, while the Federal Reserve Bank operates under a mandate (inherited from the 1940s) that requires it to attend to both inflation and unemployment when formulating monetary policy. Making the US ‘more like Europe’ is not a strategy for escaping the grip of neoliberalism.

Figure 2 suggests that ‘Social Capitalism’ involves something altogether different from the current reality in either the US or Europe. In fact, it represents nothing less than a repudiation of and genuine alternative to neoliberalism. It is to discussion of this alternative that we now turn.

4.1. Social capitalism: an alternative to neoliberalism

As defined by Krämer et al. (2023), Social Capitalism constitutes a ‘renewed social democracy’ designed to achieve growth that is both *inclusive* (in the sense of being consistent with

an equitable wage share of income) and *sustainable* (in the sense that it does not foster financial imbalances). These constitute ‘narrow’ definitions of inclusivity and sustainability, although it should be noted that their intended economic impact is broad, the immediate ambition of Social Capitalism being the creation of a ‘rising tide (of income and wealth) that lifts *all* boats’ – not just those of the affluent or even just those of disaffected white working class males. Nevertheless, it is only sensible to acknowledge that the conceptions of inclusivity and sustainability noted above do not refer to the protection and/or extension of civil rights (such as voting rights and reproductive rights) or the need to reconcile economic activity with environmental constraints – much less still-broader projects such as human development (on which see, for example, Auerbach and Skott, 2021, pp.160-162). The purpose of Social Capitalism is not to overlook these broader elements of inclusivity and sustainability, but instead to focus in the first instance focus on the achievement of labour-market-centric outcomes that are essential for any regime that seeks to provide an alternative to neoliberalism: sufficiently high and steadily rising real wages and sensible working hours as an alternative to ever-increasing (and ever more ‘flexible’) commitments to the paid labour market coupled with ever-increasing debt. Social Capitalism can therefore be thought of as necessary if not sufficient to address the ills of contemporary capitalism (which include urgent climate challenges and racial and gender inequality among other challenges) – that is, as an important point of departure rather than a universal solution.

In the Social Capitalism vision, the secular decline in the wage share of income over the past 3-4 decades is a sign of misaligned distributional conflict between capital and labour – an imbalance of power in which workers are too weak, giving rise to the twin perils of growing inequality and the ‘financialization of the household’. The labour market can therefore be seen as a critical fulcrum of the triumvirate of inequality, financialization, and weak macroeconomic performance that now imperils the very social fabric of contemporary capitalism. In order to achieve and maintain inclusive and sustainable growth as defined above, several

labour-market-centric policy interventions are urgently required.⁹ First, workers need sufficient bargaining power to properly influence the terms and conditions of employment – and in particular, to reverse the disconnect between real wage growth and productivity growth that has resulted in the secular decline of the wage share of income over the past 45 years. Workers already have the *incentive* to increase real wages at a faster pace (because wages are the primary source of income for most households). What they need (and currently lack) is the means to *achieve* this end – the requisite bargaining power. Various concrete and practical interventions would contribute to this end, including: reversing changes in labor law that have made unionization more difficult and de-unionization easier (Block et al., 1996), together with better (i.e., less pro-corporate) interpretation and administration of existing law; paying attention to the institutional structure of global economic integration, so that it avoids competition in labor standards between political jurisdictions and re-directs the focus of globalization towards international cost competition based on productivity-enhancing technical change (Palley, 2004, 2012); and increasing the minimum wage (and mainting of its real value over time) to create a higher domestic wage floor that would, in turn, provide a basis for wage negotiations outside the minimum wage sector, and so empower workers more generally.

In addition, and given the chronic precarity of employment in a capitalist economy, there needs to be proper support for job seekers. This requires not only adequate support for the involuntarily unemployed, but also a combination of macroeconomic policies designed to achieve and maintain full employment. Conventional expansionary monetary and fiscal policies are important in this regard, but so, too, are other schemes that might more directly target the creation or maintenance of employment. These include employer of last

⁹Here we attempt only to sketch these interventions. For a more detailed programmatic approach, see Krämer et al. (2023, chpt.8). See also Hodgson (2021), Sawyer (2022) and Guttman (2023) for more extensive discussion of revitalising social democracy that are compatible with the idea of Social Capitalism outlined in what follows.

resort (ELR) proposals wherein, in addition to private- and public-sector employment, the government aims to provide meaningful employment in lieu of unemployment benefits (Tcherneva. and Wray, 2005).¹⁰ This is aimed primarily at those working in the private sector, where business cycles create periodic high unemployment. The general aim of ELR schemes is to help workers to avoid the manifold social and economic problems associated with unemployment but without subjecting them to ‘workfare’ – that is, punitive unemployment insurance systems that mandate work (however meaningless) in return for benefits. Employment maintenance is also the purpose of short-time work schemes, such as the German system of *kurzarbeit* – a social insurance program that enables employers to reduce working hours instead of laying off workers. In the event of a recession, a short-time work scheme both cushions household income loss and minimizes worker-firm separations. The latter works to the potential advantage of both workers *and* firms when general economic conditions improve, facilitating expansions of output through increases in the hours of current short-time employees rather than through costly search for new employees.

Finally, labour-market-centric policies of the type envisaged above must be buttressed by a renewal of the welfare state. Propagation of anti-welfarist sentiment is part of the original neoliberal capital-citizen accord described by Houston (1992). An important component of Social Capitalism involves both: (a) countering rhetoric designed to misrepresent the welfare state, as nothing more than a collection of disincentives to work that advantage only a minority of idlers; and (b) revitalizing public provision of and access to vital social services – such as health care, education, and child care – that, in fact, make the welfare state a collection of vitally important ‘ladders’ to economic prosperity and upward social mobility.¹¹

Social Capitalism so-described bears comparison to the concept of ‘social democratic

¹⁰Depending on the precise proposal, an ELR program may provide an alternative to unemployment benefits or else replace unemployment benefits entirely.

¹¹There would be great benefit to many currently disadvantaged members of society if more of those who are currently in positions of advantage were less self-celebratory and more forthright about the often substantial public investments that have contributed to their advancement.

liberalism’ recently advanced by Hodgson (2021), with respect to both the organization of the economy *and* the organization of civil society. With respect to the former (and as is implicit in what has been said so far), Social Capitalism envisages continued reliance on core capitalist institutions such as private property and markets, enhanced by state intervention designed to supplement and guide the workings of these institutions in the pursuit of the common good. In short, the guiding vision of Social Capitalism is that capitalist forces of production should be – indeed, need to be – embedded in a suitable social structure (i.e., relations of production) in order to make capitalism ‘social’ in the sense that, in the first instance, it provides material prosperity and security for all. As regards civil society, meanwhile, Social Capitalism rests on the primacy of representative democracy coupled with the protection of individual rights, but without assuming that individuals are (or should be) devoted only to their own self interest. Here the inspiration is the ‘moral sentiments’ described by Adam Smith, that put the pursuit of economic self-interest into a broader social context based on respect for the rights of others, a sense of duty to collective causes, and acknowledgment of the importance of cooperation and coordination with other individuals and communities. This is a civil society in which liberty is seen not as a ‘negative’ concept (involving only the absence of constraints on individual behaviour), but as a ‘positive’ concept – a society in which, for example, a formal law requiring drivers to ‘keep right except to pass’ is understood as liberating, because by denying the choice to drive anywhere on the road it coordinates many individual decisions and, in so doing, facilitates road transportation in a manner and to an extent that would otherwise be impossible.

As noted, the narrow definitions of inclusivity and sustainability it embraces mean that the concept of Social Capitalism outlined here is not a panacea. But to the extent that it addresses the neoliberal degradation of labour market conditions – which is arguably the ‘ground zero’ of macroeconomic and social malfunction under neoliberalism – it constitutes not just a valid but arguably essential point of departure for any more expansive and gen-

uinely post-neoliberal project.

4.2. Managing or *eliminating* the discontent of the losers?

An important premise of this paper is the necessity of maintaining social cohesion in a capitalist economy if it is to function successfully. This raises the question as to how different possible future political-economic regimes would approach this task, and whether or not they would succeed?

In order to address this question, it is useful to first refer to figure 3, which summarizes the essential visions of the economy and polity embodied in Authoritarian Neoliberalism, Modern Centre-Left politics, and Social Capitalism. The references to ‘social democratic corporatist’ and ‘bourgeois corporatist’ visions of the economy in figure 3 draw on Cornwall (1990), who argued that an interventionist state in a mixed economy can intervene and direct the economy either more in the interests of workers (as in classic Scandinavian social democracy) or more in the interests of capital (as in contemporary economies such as Japan and Switzerland or, in the extreme, in the political economy of fascism). Authoritarian Neoliberalism appears in the north-west quadrant of figure 3. It is bourgeois corporatist in the straightforward sense that it inherits the economic structure of neoliberalism, in which the power of the state is used (on behalf of private wealth) to disempower workers. It is authoritarian in the sense that, as described in section 3, it seeks to structure civil society by amplifying what remains of the neoliberal capital-citizen accord – its coercive and divisive consensus building aspects. Putting these traits together, it follows that Authoritarian Neoliberalism will need to manage the discontent of the losers, and that it will do so (and so achieve social cohesion of a sort) as previously described in section 3: by fully (and finally) instituting the original ‘less bread and a lot more circus’ vision of the capital-citizen accord found in Houston (1992).

Meanwhile the parties of the Modern Centre-Left appear in the north-east quadrant of

Figure 3: Alternative Future Capitalisms

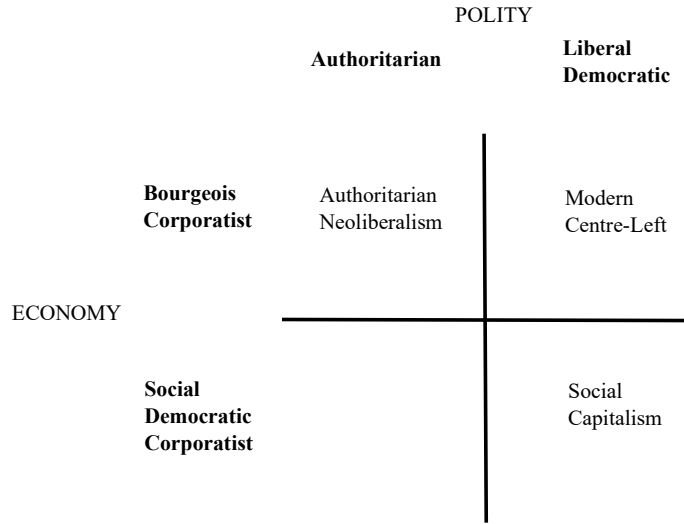


figure 3. The Modern Centre-Left unequivocally advocates liberalism rather than illiberalism in the social sphere, and in the contemporary political environment is thus seen by many as virtuously defending democracy against would-be demagogues and dictators. It does so, however, with an approach to the economy that is bourgeois corporatist. In the economic sphere, the Modern Centre-Left offers little more than ‘soft’ Thatcherism: warm-hearted rhetoric designed to sugar-coat the state’s commitment to the interests of capital (privatization, free trade, lax anti-trust enforcement, welfare ‘reform’) regardless of the consequences for workers.¹² The result of all this is that the Modern Centre-Left embraces neoliberalism but provides itself with no basis for managing the discontent of the losers. It does not manage this discontent at its source (by virtue of its bourgeois corporatism) and neither does it do so in the social sphere, where it actively resists the illiberal divisive consensus

¹²This approach has been the hallmark of various recent administrations in the US and UK, for example, (those of Bill Clinton, Tony Blair, and Barack Obama) and promises to resurface in the UK under Kier Starmer. It can be argued that the Biden administration in the US is, if not a full-blown exception, then at least an effort to pull away from the neoliberal core of Modern Centre-Left thinking. Once again the reader is referred to Mudge (2008, pp.721-2), Kotz (2015, chpt.4), and Lichtenstein and Stein (2023) on the complicity of the left in advancing the cause of neoliberalism.

building and coercion central to the machinations of ‘less bread and a lot more circus’. As a result, it offers no basis for renewing the capital-citizen accord and cannot create social cohesion. Instead, its (intrinsically worthy) efforts with respect to the defense of democracy are frequently dismissed as the preoccupation of materially comfortable and ‘out of touch’ elites.

Finally, Social Capitalism appears in the south-east quadrant of figure 3. Its vision of civil society rests on a commitment to democracy embedded in a positive view of liberty. Its economic core is, in the social democratic corporatist tradition, oriented towards tempering the power of wealth and so directing capitalist forces of production towards inclusive and sustainable growth. In this way, it ‘manages’ the discontent of the losers by *eliminating* this discontent at its (economic) source. This, in turn, liberates Social Capitalism to pursue its vision of civil society. It is free to resist illiberalism (because it does not *need* ‘a lot more circus’ to distract attention from there being ‘less bread’), and instead achieve renewal of the capital-citizen accord (and social cohesion) through promotion of the tenets of liberal democracy.

4.3. Can the economy really make a difference?

The argument made above places considerable weight on the economy (and more specifically, inclusive and sustainable growth) as the fulcrum of Social Capitalism that simultaneously saves capitalism and liberal democracy. Can the economy really be this important? Arguably it can.

First, Storm (2021) argues that the fundamental failing of late-twentieth century ‘social democracy’ was its sharp turn away from its formerly reformist economic basis under the guise of ‘Third Way’ thinking. The ‘Third Way’ purported to reject ‘old’ political distinctions between left and right, but more fundamentally involved simple acceptance of neoliberal economic precepts. According to Storm (2021), when coupled with simultaneous embrace

of middle-class-oriented ‘cultural politics’, this served largely to alienate traditional working class supporters by making recent centre-left governance as identifiable with rising inequality, austerity, economic insecurity, and social exclusion as right-wing administrations in thrall to same neoliberal fatalism (that ‘there is no alternative’). The irony, of course, is that this has helped drive some working class voters into the arms of ‘fledgling’ Authoritarian Neoliberals such as Donald Trump. Trump, for example, has adopted rhetorical positions on issues such as deindustrialization, globalization, and economic marginalization that, while frequently lacking in substance (much less coherence), nevertheless appeal to some (former) constituents of the left by providing those afflicted by neoliberal economics with an apparent ‘champion’ and an accompanying sense that they are ‘not being ignored’.

Second, and as discussed earlier, managing the discontent of the losers during the Neoliberal Boom had a (partly) material basis – the household debt accumulation that, *inter alia*, attenuated consumption inequality prior to the GFC and Great Recession. The breakdown of this mechanism since the GFC and Great Recession began to have demonstrable political consequences as early as the middle of the last decade. Hence according to Ferguson et al. (2020), while the social politics of racism and sexism were important factors, economic considerations contributed to Donald Trump’s winning the Republican nomination for President in 2016, and subsequently encouraged various voters who had either abstained or voted Democrat in the 2012 US Presidential election to vote for Trump in his successful bid for office. This suggests that social politics aside, economic factors have been ‘written through’ recent US election results. In a similar vein, Bossert et al. (2022) study the relationship between an index of economic insecurity and political preferences in the US and UK, finding that increased economic insecurity is associated with both increased political participation and more support for conservative politicians and politics – in particular, Donald Trump prior to the 2016 US Presidential election, and the ‘leave’ campaign in the UK prior to the

2016 referendum on Brexit.¹³ In short, when it comes to understanding the current juncture and what is required to avoid a future of Authoritarian Neoliberalism, we could do worse than to paraphrase Bill Clinton’s former strategist James Carville: ‘it’s (to a substantial extent) the economy, stupid’.¹⁴

Moreover, and despite its neglect by contemporary centre-left parties, there are reasons to believe that it is possible to build a democratic electoral coalition around the twin facets of Social Capitalism identified in figure 3 (social democratic corporatism and liberal democracy) drawing on (among others) the traditional electoral base supportive of social democratic corporatism in the economic sphere. In other words, Social Capitalism is not a mere ‘pipe dream’ that would inevitably fail to garner support at the polls.

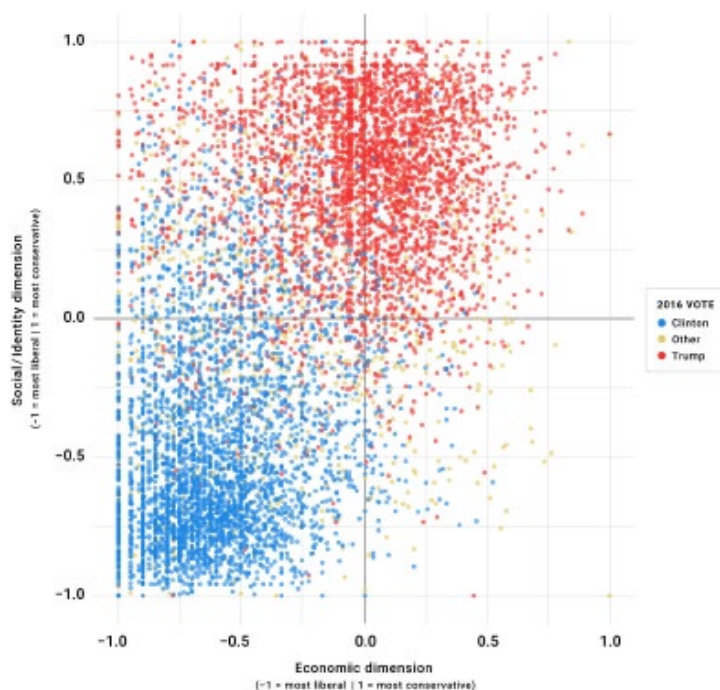
Figure 4 plots the self-identified social and economic identities of voters in the 2016 US presidential election. It reveals that while Trump voters were reliably conservative on social issues, their attitude to the economy was far more mixed – so that this coalition struggled to cohere on economic matters. Clinton voters were, however, far more coherent, being unambiguously liberal on social matters and unambiguously progressive on economic matters, their ‘liberal’ views (as reported in the data used to compile figure 4) involving, among other things, support for government intervention in the economy and support for progressive taxation in order to reduce income inequality. The coherence of this coalition bodes well for Social Capitalism because it suggests unequivocal support among a large electoral group for both dimensions (economic and social) of the project.¹⁵ It is also worth noting in passing that figure 4 reveals little or no electoral support for the combination of

¹³See also Gabriel et al. (2023), who connect deteriorations in macroeconomic performance resulting from austerity policies to reduced trust in political institutions and increased support for extremist political parties.

¹⁴In fact, and in keeping with the ‘complicity of the left’ noted previously, the argument can be made that had Clinton understood the full import and ramifications of Carville’s claim at the time, we might never have arrived at the current juncture.

¹⁵According to Drutman (2017, p.10), no less than 44.6% of the 2016 US electorate are found in the south-west quadrant of figure 4, which corresponds to the south-east quadrant (occupied by Social Capitalism) of figure 3.

Figure 4: Political Divisions in the 2016 US Presidential Election (*Source: Drutman (2017, p.9)*)



social liberalism and economic conservatism (in the south-east quadrant of the figure) that corresponds to *precisely* the position that the Modern Centre-Left has sought to occupy (see the north-east quadrant of figure 3 and previous discussion thereof.)

Finally, and lest prevailing media narratives give the impression that materially discontent working and middle-income households have deserted historically left-leaning parties altogether, the results of the 2020 US Presidential election serve as a reminder that traditional sources of support for social democratic corporatism persists (and can therefore be built upon). According to estimates derived from exit polls conducted by Edison Research for the National Election Pool and reported in the *New York Times* on November 3, 2020, while fully 55% of college educated voters voted for Democratic candidate Joe Biden (compared to 42% for Donald Trump), the non-college-educated vote was evenly split between the two candidates (49% each). Meanwhile, Trump – not Biden – was the candidate of the

affluent. Biden won the votes of 57% of voters with household incomes less than \$50,000 per annum and 56% of voters with household incomes of \$50,000 – \$99,999 per annum (compared to 42% and 43%, respectively, for Trump). Trump, meanwhile, won 54% of the votes of the 28% of voters reporting household incomes in excess of \$100,000 per annum, compared to Biden’s 43%. Finally, of the 19% of voters who reported having a union member in their household, 57% voted for Biden (as opposed to 40% for Trump).

What all this suggests is that Social Capitalism is politically viable: there exists a large and coherent core of support among the electorate for social democratic corporatism combined with liberal democracy, including among the ‘traditional’ bases of support for social democratic corporatism (such as less affluent households and union members) who have the most to gain from the economic dimension of Social Capitalism. The pressing question is: can traditionally left-of-centre political parties wake up to this reality and commit to supporting the sort of economic reforms from which their traditional (and still relatively loyal) voting bases will benefit?

5. Conclusions

This paper has argued that the capital-citizen accord that fostered social cohesion during the Neoliberal Boom (1990-2007) had a material basis that broke down amidst the 2007-09 GFC and Great Recession. The result has been a crisis in the capital-citizen accord which, at this juncture, requires institutional renewal. Two viable alternatives have been identified: Authoritarian Neoliberalism and Social Capitalism. The former seeks to ‘patch up’ neoliberalism through appeal to illiberalism – specifically coercion and ‘divisive consensus building’ – designed to (finally) institute a capital-citizen accord of the sort originally envisaged by Houston (1992), based on ‘less bread and a lot more circus’. Social Capitalism, meanwhile, seeks to transcend neoliberalism. It is based on a social democratic corporatist approach

to the economy designed to deliver inclusive and sustainable growth and so *eliminate* at its source the discontent of the losers inherited from the neoliberal era. This, in turn, would liberate Social Capitalism to pursue a liberal democratic approach to civil society, by freeing it from the need (ever-present in the alternative Authoritarian Neoliberal regime) to manage the discontent of the losers through illiberalism. Finally, it has been argued that the Social Capitalist project so-described is politically viable – if only the traditionally left-of-centre parties that once embraced this position would do so again and, in the process, understand the lack of innate political viability associated with their recently-favoured combination of neoliberal economics and social liberalism.

There can be no doubt that the concept of sustainable and inclusive growth articulated in this paper is too narrow to be a panacea. It can and must be broadened to include, among other things, climate concerns and aspects of inequality and inequity along the dimensions of race, gender, and sexual orientation. Nevertheless, it is well to remember that structural change in the labour market and the accompanying disempowerment of workers have been a, if not the, central feature of the rise and consolidation of neoliberal capitalism for the best part of four decades. Focusing on the distributions of income and wealth between social classes, the accompanying financial developments that have either contributed to or facilitated disadvantageous changes in these distributions, and the labour market as a critical nexus linking the major pathologies of contemporary capitalism therefore appears warranted. On this view, the ‘narrow’ conception of inclusive and sustainable growth adopted in this paper is an important point of departure, and the economic reforms associated with it can be seen as a critically important first step towards the rejection of neoliberalism (and illiberalism) and the accompanying reconstruction of the economy and civil society.

Moreso than broadening the concept of Social Capitalism, the immediate task ahead involves persuading (formerly) sympathetic political parties of the urgent need for a modern form of social democratic corporatism that provides the social structure necessary to guide

and direct capitalist forces of production so that they better serve the public purpose. This is the immediate challenge of our times and it must be successfully addressed if we are to avoid the failures of the recent past, arrest and reverse deepening divisions in both the economy and civil society that are propelling us towards a future of Authoritarian Neoliberalism, and so resuscitate and sustain advanced capitalism in its democratic form.

References

- Arendt, H. (1973). *The Origins of Totalitarianism*. New York: Harcourt, Brace, Jovanovich.
- Auerbach, P. and P. Skott (2021). Visions of the future – a socialist departure from gloom? *PSL Quarterly Review* 74(298), 155–177.
- Barba, A. and M. Pivetti (2009). Rising household debt: Its causes and macroeconomic implications—a long-period analysis. *Cambridge Journal of Economics* 33(1), 113–137.
- Barlow, D. and M. Barlow (1995). Federal criminal justice legislation and the post-World War II social structure of accumulation in the United States. *Crime, Law and Social Change* 22, 239–267.
- Barlow, D., M. Barlow, and G. C. T (1993). Long economic cycles and the criminal justice system in the U.S. *Crime, Law and Social Change* 19, 143–169.
- Block, R. N., J. Beck, and D. H. Kruger (1996). *Labor Law, Industrial Relations, and Employee Choice: The State of the Workplace in the 1990s*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
- Blyth, M. (2013). *Austerity: The History of a Dangerous Idea*. Oxford: Oxford University Press.
- Bossert, W., A. E. Clark, C. D’Ambrosio, and A. Lepinteur (2022). Economic insecurity and political preferences. *Oxford Economic Papers* 75(3), 802–825.
- Boyer, R. (1990). *The Regulation School: A Critical Introduction*. New York: Columbia University Press.
- Brown, C. (2008). *Inequality, Consumer Credit and the Saving Puzzle*. Cheltenham: Edward Elgar.
- Cornwall, J. (1990). *The Theory of Economic Breakdown: An Institutional-Analytical Approach*. Oxford: Basil Blackwell.

- Cynamon, B. Z. and S. M. Fazzari (2008). Household debt in the consumer age: Source of growth - risk of collapse. *Capitalism and Society* 3(2), 1–32.
- Cynamon, B. Z. and S. M. Fazzari (2016). Inequality, the Great Recession and slow recovery. *Cambridge Journal of Economics* 40, 373–399.
- Drutman, L. (2017). Political divisions in 2016 and beyond:tensions between and within the two parties. Research report, Democracy Fund Voter Study Group.
- Ferguson, T., B. I. Page, J. Rothschild, A. Chang, and J. Chen (2020). The roots of right-wing populism: Donald Trump in 2016. *International Journal of Political Economy* 49(2), 102–123.
- Gabriel, R. D., M. Klein, and A. S. Pessoa (2023). The Political Costs of Austerity. *The Review of Economics and Statistics*, 1–45.
- Guttmann, R. (2023). Can we reform capitalism for its own good? a roadmap to sustainability. *PSL Quarterly Review* 76, 67–88.
- Hodgson, G. M. (2021). *Liberal Solidarity: The Political Economy of Social Democratic Liberalism*. Cheltenham, UK: Edward Elgar.
- Houston, D. (1992). Is there a new Social Structure of Accumulation? *Review of Radical Political Economics* 24(2), 60–67.
- Kalecki, M. (1943). Political aspects of full employment. *The Political Quarterly* 14(4), 322–30.
- Kotz, D. M. (2003). Neoliberalism and the social structure of accumulation theory of long-run capital accumulation. *Review of Radical Political Economics* 35(3), 263–270.
- Kotz, D. M. (2015). *The Rise and Fall of Neoliberal Capitalism*. Cambridge, MA: Harvard University Press.
- Kotz, D. M. (2019). The rate of profit, aggregate demand, and the long economic expansion in the United States since 2009. *Review of Radical Political Economics* 51(4), 525–535.
- Krämer, H., C. Proaño, and M. Setterfield (2023). *Capitalism, Inclusive Growth, and Social Protection: Inherent Contradiction or Achievable Vision?* Cheltenham, UK: Edward Elgar.
- Lichtenstein, N. and J. Stein (2023). *A Fabulous Failure: The Clinton Presidency and the Transformation of American Capitalism*. Princeton, NJ: Princeton University Press.
- McDonough, T. (2021). Social structure of accumulation theory. In T. McDonough, C. McMahon, and D. Kotz (Eds.), *Handbook on Social Structure of Accumulation Theory*, pp. 15–32. Cheltenham, UK: Edward Elgar Publishing.

- Mudge, S. L. (2008). What is neo-liberalism? *Socio-Economic Review* 6(4), 703–731.
- Palley, T. (2012). *From Financial Crisis to Stagnation: the Destruction of Shared Prosperity and the Role of Economics*. Cambridge: Cambridge University Press.
- Palley, T. I. (2002). Economic contradictions coming home to roost? Does the US economy face a long-term aggregate demand generation problem? *Journal of Post Keynesian Economics* 25, 9–32.
- Palley, T. I. (2004). The economic case for international labour standards. *Cambridge Journal of Economics* 28(1), 21–36.
- Pettit, B. and B. Western (2004). Mass imprisonment and the life course: Race and class inequality in U.S. incarceration. *American Sociological Review* 69(2), 151–169.
- Rey-Araújo, P. M. (2019). Grounding populism upon political economy: Organic crises in social structures of accumulation theory. *Science & Society* 83(1), 10–36.
- Sawyer, M. (2022). Beyond social democracy and neo-liberalism: Towards a social economy. *PSL Quarterly Review* 74(299), 287–306.
- Setterfield, M. (2020). Managing the discontent of the losers. *Review of Social Economy* 78(1), 77–97.
- Setterfield, M. (2023). Inflation and distribution during the post-covid recovery: a kaleckian approach. *Journal of Post Keynesian Economics* 46(4), 587–611.
- Stockhammer, E. and R. Wildauer (2018). Expenditure Cascades, Low Interest Rates or Property Booms? Determinants of Household Debt in OECD Countries. *Review of Behavioral Economics* 5(2), 85–121.
- Storm, S. (2021). Labour’s loss: Why macroeconomics matters. *PSL Quarterly Review* 74(299), 249–284.
- Tcherneva, P. and L. Wray (2005). Common goals - different solutions: Can basic income and job guarantees deliver their own promises? *Rutgers Journal of Law and Urban Policy* 2(1), 125–166.
- Wolfson, M. and D. Kotz (2010). A reconception of social structure of accumulation theory. In T. McDonough, M. Reich, and D. Kotz (Eds.), *Contemporary Capitalism and its Crises: Social Structure of Accumulation Theory for the 21st Century*, pp. 72–90. Cambridge: Cambridge University Press.

Imprint

Publisher

Macroeconomic Policy Institute (IMK) of Hans-Böckler-Foundation, Georg-Glock-Str. 18,
40474 Düsseldorf, Contact: fmm@boeckler.de, <https://www.fmm-macro.net>

FMM Working Paper is an irregular online publication series available at:
<https://www.boeckler.de/de/fmm-working-paper-22457.htm>

The views expressed in this paper do not necessarily reflect those of the IMK or the Hans-Böckler-Foundation.

ISSN 2512-8655



This publication is licensed under the Creative commons license:
Attribution 4.0 International (CC BY).

Provided that the author's name is acknowledged, this license permits the editing, reproduction and distribution of the material in any format or medium for any purpose, including commercial use.

The complete license text can be found here: <https://creativecommons.org/licenses/by/4.0/legalcode>

The terms of the Creative Commons License apply to original material only. The re-use of material from other sources (marked with source) such as graphs, tables, photos and texts may require further permission from the copyright holder.
