[Robert Pollin And Gerald Epstein](https://www.thenews.com.pk/writer/robert-pollin-and-gerald-epstein)

July 2, 2021

**Textbook neoliberalism**

In textbook economics the movements of financial markets are supposed to reflect underlying conditions in the real economy where goods and services are produced, workers are hired and paid, and companies profit or don’t in attempting to sell their products. In this scenario, when companies lay off workers, workers lose income and cut back on spending, which means companies are likely to face difficulties selling their products. Their profits should fall as a result. As unemployment rises and profits fall, the value of these companies, as expressed in their stock market prices, should decrease. This has not been the case over the past year – as disparities grew between conditions in the real economy and financial markets – because governments undertook massive bailout operations in the face of the COVID-19 pandemic.

In March 2020, with Donald Trump in office and Republicans controlling the US Senate, the federal government enacted the CARES Act, a $2 trillion stimulus program equal to about 10 percent of US GDP. More than 40 percent of the total funding – about $850 billion – went to loans and grants for businesses, with only weak stipulations as to how these funds would be used. For example, large businesses could receive a loan and still lay off up to 10 percent of their employees, while smaller businesses could receive loans or grants without committing to retaining any employees. At the discretion of the Treasury Secretary, corporations could even engage in stock buybacks to boost their share prices with the funds. The CARES Act provided one-time cash support for people earning $75,000 or less and significant, though temporary, unemployment insurance support for laid-off workers. In December the CARES Act was followed by the 2020 COVID Relief Act, budgeted at $900 billion, another 4 percent injection of GDP. About 33 percent of the Act’s funding went to an additional round of credit and grants to businesses.

Together the CARES and Covid Relief Acts amounted to about 14 percent of US GDP in 2020, an unprecedented expansion of federal government deficit spending in peacetime. Yet these massive stimulus measures were exceeded by nearly $4 trillion spent on Federal Reserve interventions – nearly 20 percent of US GDP – to ensure Wall Street stayed afloat. Most significantly, the Federal Reserve bought financial assets – including US Treasury bonds, mortgage-backed securities, and even corporate junk bonds held by money market funds, private equity dealers, and banks – to ensure that these firms were well-stocked to survive the crisis. This gargantuan cash injection propped up the stock market and other US financial markets, which in turn suppressed incipient panic and launched a spike in stock prices. The stock market rise was further fueled by the Federal Reserve pushing the short-term interest rate it controls to near-zero. Thus, Wall Street players could borrow cheap money to purchase stocks.

The policy interventions in other high-income countries followed broadly similar trajectories during the pandemic. The Bank of International Settlements (BIS) described these measures as ‘unprecedented’ in ‘size and scope’. As in the United States, the largest proportionate interventions involved directly bolstering financial markets through measures such as purchasing assets and guaranteeing fragile loans. The BIS estimated that these interventions exceeded 30 percent of GDP in Germany and Italy, over 20 percent in Japan, and around 15 percent in the UK and France.

It is true that these 2020 global bailout operations were triggered by the Covid pandemic, not by the breakdown of neoliberal economic policies. But the same bailout operations deployed to counteract the Covid lockdowns have also been mobilized regularly and with increasing force since the beginning of the neoliberal era in the early 1980s.

The stock market rise was further fueled by the Federal Reserve pushing the short-term interest rate to near-zero so Wall Street players could borrow cheap money to purchase stocks.

Indeed, it was only thirteen years ago, in 2008, that Wall Street hyper-speculation brought the global economy to its knees during the Great Recession. To prevent a 1930s-level depression at that time, economic policymakers throughout the world 00 including in the United States, the European Union, Japan, South Korea, China, India, and Brazil – enacted extraordinary measures to counteract the crisis Wall Street created. As in 2020, these measures included financial bailouts, monetary policies that pushed central bank-controlled interest rates close to zero, and large-scale fiscal stimulus programs financed by major expansions in central government deficits.

In the United States, the fiscal deficit reached $1.4 trillion in 2009, equal to 9.8 percent of GDP. The deficits were around $1.3 trillion in 2010 and 2011 as well, amounting to close to 9 percent of GDP in both years. These were the largest peacetime deficits prior to the 2020 COVID recession. The federal government’s fiscal deficit had averaged 1.7 percent GDP in the fifty-eight years prior, between 1950 and 2008. As a share of GDP, the deficit from 2009 to 2011 spiked more than five-fold relative to the post World War II average.

As with the 2020 crisis, the Federal Reserve’s interventions to prop up Wall Street and corporate America were even more extensive than the federal government’s deficit spending policies. A careful 2017 study by Better Markets estimated the overall level of financial market support between 2009 and 2012 at $12.2 trillion, about 20 percent of GDP per year. Moreover, this total figure does not include the full funding mobilized in 2009 to bail out General Motors, Chrysler, Goldman Sachs, and the insurance giant AIG – all of which were facing death spirals at that time. It is hard to envision the form in which US capitalism might have survived at that time if, following true free market precepts as opposed to the actual practice of neoliberal champagne socialism, these and other iconic US firms would have been permitted to collapse.

Similar patterns prevailed in Europe during the Great Recession. Among the then twenty-seven countries of the EU, fiscal deficits for 2009 averaged 6.8 percent of GDP, compared with a 1.8 percent average between 2001 and 2007. According to the EU’s Stability and Growth Pact, established in 1997 as a means of enshrining a neoliberal project throughout the continent, annual fiscal deficits were not permitted to exceed 3 percent of GDP other than in severe recessions. Such recessions were expected to be few and far between, with the added expectation that adhering to neoliberal policy precepts was the best way to ensure this.

Excerpted: ‘Neoliberalism Has Depended on Huge Levels of Government Support for Its Entire Existence’

Commondreams.org