Review of "The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era" by Gary Gerstle

Ilyana Kuziemko, Princeton University

Suresh Naidu, Columbia University,

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The very word "neoliberalism" induces eyerolls among most economists. Clearly it is a term preferred by wooly-headed humanists who found the math portion of the GRE challenging. Detractors argue that "neoliberalism" does not really exist and that those who use the word cannot even define it. So, what *is* neoliberalism?

Gary Gerstle's recent book offers a comprehensive answer, rooted in a panoramic view of American political history. Gerstle writes that a key neoliberal goal was "encasement" of the economy. Two examples of this are commitment by the government to rules that facilitate market transactions, most prominently central bank policymaking, financial regulation, and international trade agreements. In the financial sector in particular, regulations that limited certain types of transactions or the trading of certain products were increasingly erased, deemed useless (or perhaps even harmful) given the assumed sophistication of traders and investors. In the domain of international trade, supra-national institutions and agreements such as NAFTA and the WTO removed trade policy from the discretion of national governments. A second innovation was extending market concepts and analogies into new domains—think school choice policies meant to create competition among principals and teachers and "marketplaces" where families could "shop" for health insurance. A third principle celebrated entrepreneurship, creativity, and spontaneity in market activity, both for its own sake, and as the source of economic growth. Micro-finance at home and abroad as a tool for economic development (as discussed by Lily Geismer's book "Left Behind") became a go-to neoliberal solution to poverty.

Gerstle argues that this new neoliberal regime comes to power in the 1970s, replacing the decades-old political and economic consensus that dated back to Franklin Roosevelt. In his telling, the New Deal order endured after the 1930s because it enjoyed fortuitous political circumstances. The fear of communism pushed disparate constituencies toward consensus---Republicans accepted the permanence of most New Deal-era reforms while one-time radical socialists such as Walter Reuther expelled communists from the big industrial unions and became enthusiastic partners in prosecuting the Cold War.

But even by the 1960s and certainly by the 1970s the political and economic landscape begins to shift. Politically, a New Left focuses more on individual rights and identity politics and finds the bureaucratic and collective heritage of the New Deal stifling. And then the 1970s brings economic "shocks" that the old order seemed unable to navigate: energy crises in the Middle East most dramatically, but also the rise of imports from low-wage countries and automation that would only accelerate in future decades.

Gerstle emphasizes that neoliberalism was not limited to ideas cooked up in shady corners of the Mont Pelerin Society but was a philosophy embraced by both Republicans *and* Democrats (and Conservatives *and* Labour in the UK). He shows how seeds of "market supremacy" are planted by the Carter administration and are in full bloom during Clinton's two terms. He quotes Larry Summers on the trajectory of the Democratic Party's economic transformation: "Not so long ago, we were all Keynesians. . . . Equally, any honest Democrat will admit that we are now all Friedmanites." Economists were key to this ideological transformation, both as public intellectuals and as government advisors.

Perhaps economists' skepticism about neoliberalism as a concept is like, as the old joke goes, fish not believing in water: neoliberal prescriptions are so enmeshed with the implicit values of neoclassical economics that it is difficult for us to see alternatives. Who could possibly object to prioritizing growing the economic pie and using the surplus to make any losers whole? And while extensions of "markets" into domains like education and health care might have been unprecedented, they were surely bound to improve outcomes by creating market incentives where before there had only been vague appeals to public virtue.

Most provocatively, Gerstle argues that the neoliberal era ended at some point during the aftermath of the 2008 crisis. He sees the Tea Party, Occupy Wall Street and Black Lives Matter movements as together presaging the unexpected success of both Bernie Sanders and Donald Trump in 2016. Increasingly, these two figures have pushed their parties away from policies that defer to global markets and market prices as transparent signals of social costs and benefits. Indeed, it is hard to find an economist in good standing who supports either Sanders or Trump.

As economists, we might in addition examine whether underlying *material* forces have rendered the neoliberal playbook obsolete. A more materialist, rather than purely political, history of the period would have asked if neoliberalism was merely the political epiphenomenon more fundamental technological forces such as falling costs of trade and transistors. Likewise, the turn away from "market supremacy" may be a natural response to a world where growth comes increasingly from both public and private investment in non-rival innovation; where resources need to be mobilized to adapt to climate shocks that respect no borders, contracts, or property rights; and where human-capital intense, slow-growing populations spend an ever-increasing share of their income on health care and education, sectors where market prices are unlikely to give clear signals of social value.