

Investigation

Changing Capitalism, Again: The Neoliberal Turn and Its Aftermath

In the decades following the New Deal, the United States experienced strong economic growth and declining economic inequality. Beginning in the late 1970s, however, policymakers began changing some of the laws and institutions that had shaped American capitalism after the New Deal. In Episode 7, John and Ellen describe these changes as part of a shift toward neoliberalism.

Think about what you've already learned about these changing laws and policies. (It may be helpful to listen to [Episode 7, 18:05-21:30 and 27:54-36:15](#), or skim the [Episode 7 transcript, pp. 15-18 and 23-30](#), to refresh your memory.)

Then, examine sources to consider how American capitalism changed again and what happened in the decades that followed.

Part	Guiding Questions
Part 1 Reagan's Views of Economic Freedom	• According to Reagan, what is economic freedom? • How does Reagan's view of economic freedom and the government's role in the economy compare with other perspectives you have encountered?
Part 2 The Neoliberal Turn and American Capitalism	• How did the shift toward neoliberalism change the way capitalism operated in the United States? • How did laws, policies, and other developments associated with this shift reflect Reagan's views about economic freedom and the role of government?
Part 3 During and After the Neoliberal Turn	• Taken together, what do these sources suggest about what changed and what did not change in the American economy beginning around the late 1970s? • What do they suggest about economic growth and how the gains from that growth were shared?

Part 1 Reagan's Views of Economic Freedom

Examine excerpts from President Ronald Reagan to consider how he understood economic freedom and the role of government in securing it.

Source

Excerpt from "First Inaugural Address," delivered by President Ronald Reagan on January 20, 1981, available via the Miller Center of Public Affairs, University of Virginia

The text below is excerpted from President Reagan's address to the nation following his inauguration as president. You can also watch a longer portion of this speech that includes the excerpts below on the [Miller Center's website \(4:20-15:20\)](#).

The business of our nation goes forward. These United States are confronted with an economic affliction of great proportions. We suffer from the longest and one of the worst sustained inflations in our national history. It distorts our economic decisions, penalizes thrift, and crushes the struggling young and the fixed-income elderly alike. It threatens to shatter the lives of millions of our people.

Idle industries have cast workers into unemployment, human misery, and personal indignity. Those who do work are denied a fair return for their labor by a tax system which penalizes successful achievement and keeps us from maintaining full productivity.

But great as our tax burden is, it has not kept pace with public spending. For decades we have piled deficit upon deficit, mortgaging our future and our children's future for the temporary convenience of the present. To continue this long trend is to guarantee tremendous social, cultural, political, and economic upheavals.

[...]

In this present crisis, government is not the solution to our problem; government is the problem. From time to time we've been tempted to believe that society has become too complex to be managed by self-rule, that government by an elite group is superior to government for, by, and of the people. Well, if no one among us is capable of governing himself, then who among us has the capacity to govern someone else? All of us together, in and out of government, must bear the burden. The solutions we seek must be equitable, with no one group singled out to pay a higher price.

[...]

It is my intention to curb the size and influence of the Federal establishment and to demand recognition of the distinction between the powers granted to the Federal Government and those

reserved to the States or to the people. All of us need to be reminded that the Federal Government did not create the States; the States created the Federal Government.

Now, so there will be no misunderstanding, it's not my intention to do away with government. It is rather to make it work – work with us, not over us; to stand by our side, not ride on our back. Government can and must provide opportunity, not smother it; foster productivity, not stifle it.

If we look to the answer as to why for so many years we achieved so much, prospered as no other people on Earth, it was because here in this land we unleashed the energy and individual genius of man to a greater extent than has ever been done before. Freedom and the dignity of the individual have been more available and assured here than in any other place on Earth. The price for this freedom at times has been high, but we have never been unwilling to pay that price.

It is no coincidence that our present troubles parallel and are proportionate to the intervention and intrusion in our lives that result from unnecessary and excessive growth of government. It is time for us to realize that we're too great a nation to limit ourselves to small dreams. We're not, as some would have us believe, doomed to an inevitable decline. I do not believe in a fate that will fall on us no matter what we do. I do believe in a fate that will fall on us if we do nothing. So, with all the creative energy at our command, let us begin an era of national renewal. Let us renew our determination, our courage, and our strength. And let us renew our faith and our hope.

[...]

In the days ahead I will propose removing the roadblocks that have slowed our economy and reduced productivity. Steps will be taken aimed at restoring the balance between the various levels of government. Progress may be slow, measured in inches and feet, not miles, but we will progress. It is time to reawaken this industrial giant, to get government back within its means, and to lighten our punitive tax burden. And these will be our first priorities, and on these principles there will be no compromise.

Source

Excerpt from **"America's Economic Bill of Rights,"** presented by President Ronald Reagan on July 3, 1987, available via the Ronald Reagan Presidential Library and Museum

The text below is an excerpt from President Reagan's Economic Bill of Rights, which he introduced during a speech at the Jefferson Memorial.

July 3, 1987

Preamble

The Founding Fathers of our country knew that without economic freedom there can be no political freedom. Their rallying cry of "No taxation without representation" reflects that fundamental precept. They knew that the right to earn your own keep and keep what you earn is central to America's understanding of what it means to be free. This country was built by people seeking to support themselves and their families by their own labor, people who treasured the right to work and dispose of their earnings as they saw fit, people who were willing to take economic risks.

Over the past 40 years, however, the growth of government has left our citizens with less control over their economic lives. What America needs now is an Economic Bill of Rights that guarantees four fundamental freedoms:

The freedom to work...You have the right to pursue your livelihood in your own way, free from excessive government regulation and subsidized government competition.

The freedom to enjoy the fruits of one's labor...You have the right to keep what you earn, free from excessive government taxing, spending, and borrowing.

The freedom to own and control one's property...You have the right to keep and use your property, free from government control through coercive or confiscatory regulation.

The freedom to participate in a free market...You have the right to contract freely for goods and services and to achieve your full potential without government limits on opportunity, economic independence, and growth.

Part 2 The Neoliberal Turn and American Capitalism

This timeline highlights a sampling of laws, policies, and other developments associated with the shift toward neoliberalism.

Source

The Neoliberal Turn, compiled by the Kenan Institute for Ethics at Duke University

Beginning in the late 1970s, during the Carter administration, policymakers began changing some of the laws and institutions that had shaped American capitalism in the decades following the New Deal. These changes continued under President Reagan and later administrations and are associated with the broader shift toward neoliberalism explored in Episode 7.

Information in this timeline was compiled and adapted from the Library of Congress, the National Archives, the U.S. Department of Labor, and the Smithsonian Institution.

1978	Airline Deregulation Act	A law signed by President Jimmy Carter that eased federal regulations governing airline fares, routes, and market entry. The changes made it easier for new, lower-cost airlines to compete with established carriers and gave airlines greater freedom to decide where to fly and what prices to charge.
1981	Executive Order 12291	A presidential order issued by President Ronald Reagan shortly after taking office that required federal agencies to weigh the costs and benefits to society of proposed regulations and submit major regulations for review by the Office of Management and Budget. Because OMB is part of the executive branch, the order gave the White House greater oversight of federal regulations. Reagan argued that reducing unnecessary regulation would encourage investment, production, and employment.
	PATCO Strike	A strike by members of the Professional Air Traffic Controllers Organization (PATCO). After more than 11,000 federal air traffic controllers refused Reagan's order to return to work, he fired them. (A 1947 law prohibited federal employees from striking.) The confrontation signaled a shift toward a less union-friendly federal government and sent a message to private employers that they, too, could take a harder line against unions.
	Economic Recovery Tax Act	A federal law that reduced individual income tax rates across all brackets, including lowering the top marginal rate from 70% to

		50% and the lowest rate from 14% to 11%. The law was intended to stimulate economic growth by encouraging saving, investment, and production.
	Omnibus Budget Reconciliation Act of 1981 (OBRA)	A federal law signed by Reagan that reduced federal spending on a range of domestic programs, including food assistance, Medicaid, education, student loans, and energy assistance.
1986	Tax Reform Act	A federal law that overhauled the federal tax code by eliminating or reducing many deductions and tax breaks while lowering individual income tax rates. The top marginal income tax rate fell from 50% to 28%, while the lowest rate increased from 11% to 15%. The law also increased the amount of income people could earn before owing any federal income tax.
1993-1994	North American Free Trade Agreement (NAFTA)	A trade agreement among the United States, Mexico, and Canada that reduced barriers to trade and investment. Negotiated under President George H. W. Bush, approved by Congress, and signed into law under President Bill Clinton, the agreement made it easier for businesses to buy, sell, and invest across national borders, including moving some production from the United States to Mexico.
1999	Financial Services Modernization Act (Gramm-Leach-Bliley Act)	A federal law that repealed major parts of the Glass-Steagall Act, a New Deal-era law that had separated commercial banking from investment banking. The bipartisan law, signed by Clinton, allowed commercial banks, investment banks, and insurance companies to operate together within the same financial holding companies.
2000	Permanent Normal Trade Relations with China	A federal law signed by Clinton that made China's normal trade status with the United States permanent, ending the need for annual congressional review. The change gave U.S. companies greater certainty about trading with China and made it easier for them to move some production there.
2003	Jobs and Growth Tax Relief Reconciliation Act	A federal law signed by President George W. Bush that lowered taxes on money people earned from owning and selling investments such as stocks. Supporters argued that the tax cuts would encourage investment and economic growth.

Part 3 During and After the Neoliberal Turn

The following graphs illustrate various aspects of American economic life before and during the neoliberal turn, as well as the decades that followed.

Source

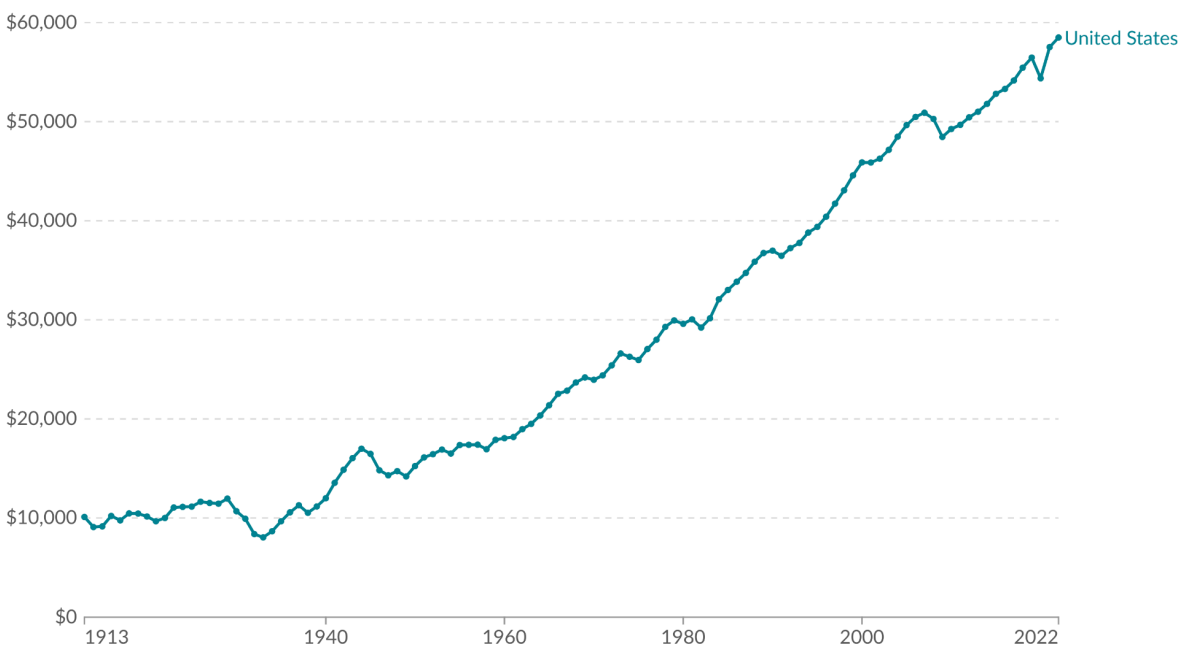
"GDP per capita, United States, 1913 to 2022" from Our World in Data (2023; updated 2024)

According to the organization's website, Our World in Data is "produced as a collaborative effort" between researchers at the University of Oxford and the non-profit organization Global Change Data Lab. Our World in Data was founded by Max Roser in 2011 with the aim of making data and research "accessible and understandable to empower those working to build a better world." All visualizations, data, and articles produced by Our World in Data are completely open access under the [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license.

GDP per capita 1913 to 2022

Our World
in Data

GDP per capita is a country's gross domestic product divided by its population. This data is adjusted for inflation and differences in living costs between countries.



Data source: Bolt and van Zanden – Maddison Project Database 2023

OurWorldinData.org/economic-growth | CC BY

Note: This data is expressed in international-\$ at 2011 prices.

Gross domestic product (GDP) is a measure of a country's economic performance. It represents the total monetary value of all final goods and services produced within its borders over a specific time period, typically annually or quarterly.

GDP includes consumption, government spending, investments, and net exports (exports minus imports). It can be measured in current prices (nominal GDP) or adjusted for inflation to reflect GDP in constant prices (real GDP).

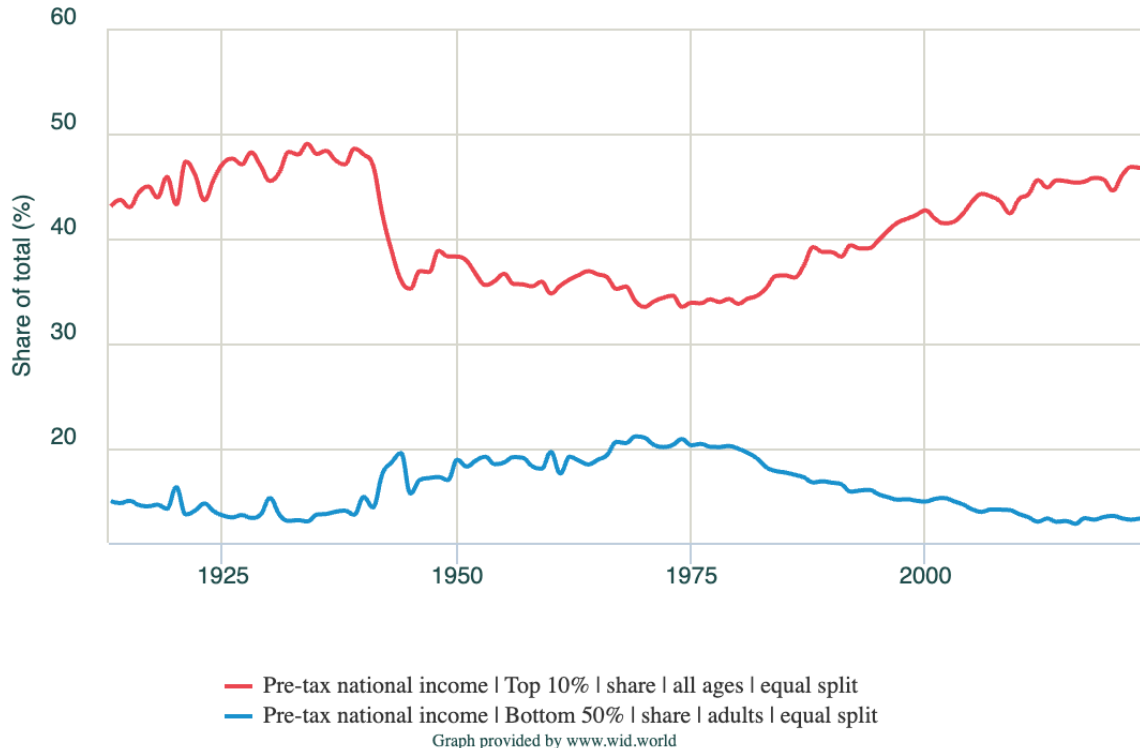
GDP is used to gauge the health of an economy, with increases indicating growth and decreases signaling contraction.

Source

"Income inequality, USA, 1913-2024" from the World Inequality Database (WID)

According to its website, the World Inequality Database (WID) "aims to provide open and convenient access to the most extensive available database on the historical evolution of the world distribution of income and wealth, both within countries and between countries." This graph is licensed under [CC BY-NC-SA 4.0](https://creativecommons.org/licenses/by-nc-sa/4.0/).

Income inequality, USA, 1913-2024



“Union Density” from “A Brief Examination of Union Membership Data” by Paul D. Romero and Julie M. Whittaker for the Congressional Research Service (CRS) (2023)

According to congress.gov, Congressional Research Service (CRS) “serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS’s institutional role.”

Union Density

1880-2022

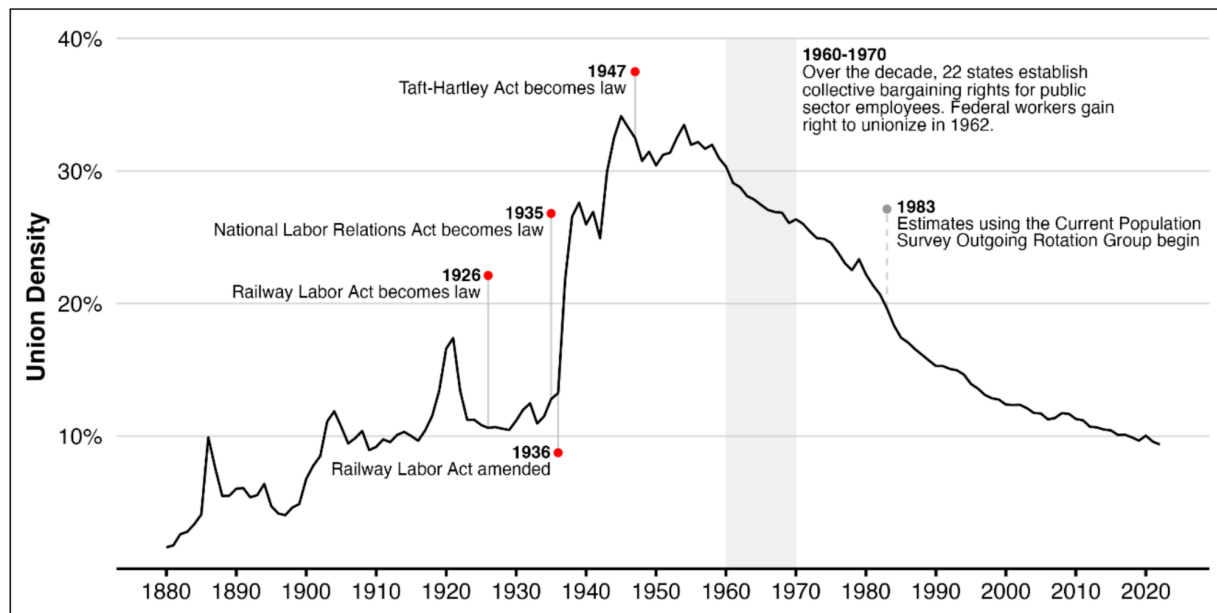


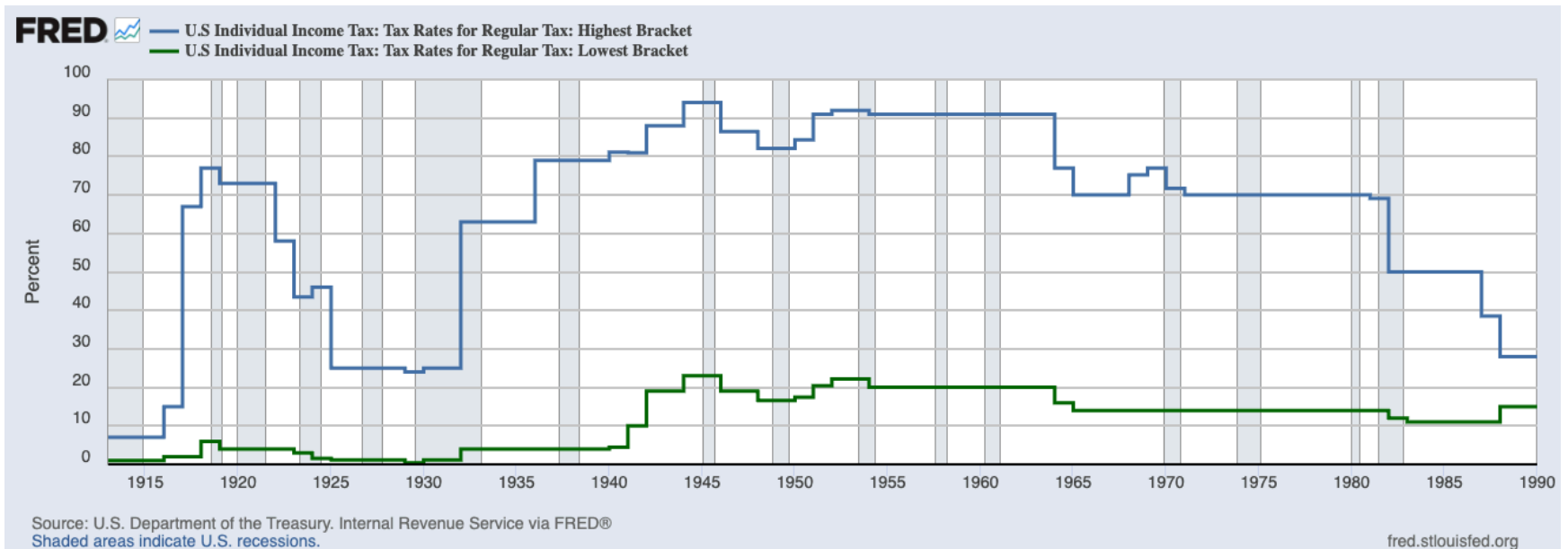
Figure created by CRS using data from the Current Employment Statistics (CES) program, the CPS, and Richard Freeman, *Spurts in Union Growth: Defining Moments*, National Bureau of Economic Research, Working Paper no. 6012, April 1997.

For this figure, union density is defined as the total number of civilian nonfarm union members divided by the total civilian nonfarm employment, which is then multiplied by 100 to obtain the percent value.

Source

"U.S. individual income tax data, 1913–1990" from the U.S. Department of the Treasury, via the Federal Reserve Bank of St. Louis (FRED)

According to its website, "FRED is an online database consisting of hundreds of thousands of economic data time series from scores of national, international, public, and private sources." FRED is created and maintained by the Research Department at the Federal Reserve Bank of St. Louis.

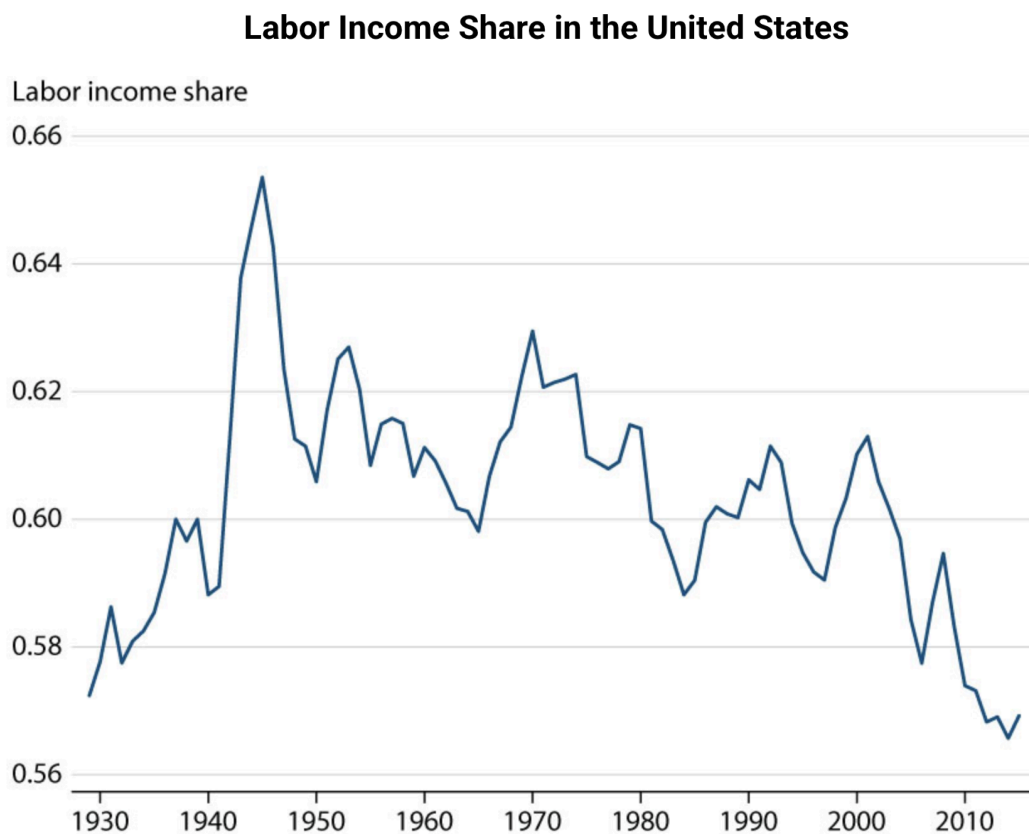


Source

"Labor Income Share in the United States" from **"Why Is the Labor Share Declining?"** by Sangmin Aum and Yongseok Shin for the Federal Reserve Bank of St. Louis *Review* (2020)

According to its website, "FRED is an online database consisting of hundreds of thousands of economic data time series from scores of national, international, public, and private sources." FRED is created and maintained by the Research Department at the Federal Reserve Bank of St. Louis.

The labor income share measures how much of a country's income is paid to workers as wages and benefits; the remaining share goes primarily to owners and investors as profits.



In 1930, about 57% of the nation's income was paid to workers – about 57 cents of every dollar generated by their labor. The labor income share increased in the 1940s and remained relatively high until the 1980s.