Neoliberalism, Globalization, Financialization: Understanding Post-1980 Capitalism

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While it is widely agreed that capitalist economies underwent significant change after around 1980, there are different interpretations of the new form of capitalism that emerged. Even among heterodox economists, there is no agreement about the best organizing concept for post-1980 capitalism – is it globalization, financialization, or neoliberalism? Or is it best understood as simply capitalism? These different understandings of contemporary capitalism have implications for our analysis of the financial and economic crisis that emerged from it in 2008 and for the means by which this crisis could be resolved.

This paper utilizes a social structure of accumulation (SSA) approach to present a case that the concept of neoliberalism is the most useful characterization of post-1980 capitalism. Focusing on the United States, with secondary attention to the global system, it argues that neoliberalism is not just an economic theory or policy approach, but a coherent system of economic ideas and economic, social, and political institutions, as well as a particular form of the capital-labor relation and of relations within capital.[1]

Neoliberal restructuring began in the U.S. under a Democratic Party Administration, that of President Jimmy Carter, in the late 1970s. While it intensified under the succesive Republican Administrations of Ronald Reagan and George H. Bush, there was no reversal after Bill Clinton took office. Despite the Clinton campaign's promise of "putting people before profit" and its call for programs reminiscent of the 1960s, after taking office President Clinton presided over the termination of one of the major New Deal social programs, Aid to Families with Dependent Children, as well as supporting the final stages of the freeing of the financial sector from government oversight.[2] Similarly, in Western Europe during this period social democratic parties have often run for office against liberal parties, promising a reversal of neoliberalism, but once in office they have maintained the direction of neoliberal restructuring.[3]

The neoliberal form of capitalism has proved to be tenacious, as was the "regulated capitalism" that preceded it in the post-World War II decades. Every form of capitalism is difficult to dislodge or redirect. The reason for this is found in the coherent, mutually-reinforcing nature of the dominant ideas, theories, and institutions of each period, along with the durability of the class and group coalition that supports each form of capitalism. What eventually has dislodged each previous form of capitalism, leading to its replacement by a different form, has been an economic crisis that emerged from the form of capitalism itself. Once a form of capitalism can no longer promote high profits and stable economic expansion, an economic crisis emerges that cannot be resolved by a few policy changes, and eventually the coalition of classes and groups on which it had been based breaks down. There follows a complex set of conflicts, proposals, innovations, and arguments, out of which something new eventually emerges.

This paper is organized as follows. First the paper examines the dominant economic ideas and institutions that emerged in the late 1970s through the early 1980s, contrasting them to those that had prevailed in the post-World War II decades. Regulated capitalism lasted from roughly the late 1940s to the early 1970s, and to some extent neoliberalism was a reaction to problems that were seen as stemming from regulated capitalism. Hence, the distinctive features of neoliberalism are best understood against the background of the preceding system. The new post-1980 institutions are grouped under the headings of the global economy, the role of government, the capital-labor relation, and the corporate sector.

Next, the paper considers "financialization" and "globalization" as organizing concepts for understanding post-1980 capitalism, arguing that neither concept adequately captures the full extent of the important features of the capitalism of this era. It then considers the question of whether the state has actually meaningfully withdrawn as suggested by the term "neoliberalism," rather than just changed the character of its economic interventions. It is argued that in this era market relations have indeed expanded at the expense of regulation of economic activity by such non-market entities as states, trade unions, and corporate bureaucracies. The last section briefly explains how the roots of the financial and economic crisis that began in 2008 can be found in neoliberal capitalism.

A Sudden Shift in the Dominant Economic Ideas

The dominant economic ideas in the neoliberal era diverged sharply from those that had reigned in the regulated capitalist era. The dominant economic orthodoxy in the post-World War II decades in the US and UK is often identified with the British economist John Maynard Keynes. His book *The General Theory of Employment, Output, and Money* was published in 1936, in the midst of the Great Depression. Keynesian economics holds that capitalist economies have a fundamental flaw at the level of the economy as whole. The Keynesians argue that there is no automatic mechanism in the economy to assure full employment of labor or to avoid occasional severe and prolonged depressions.

According to the Keynesians, this flaw stems from the impact on the economy of the highly variable level of business investment in plant and equipment.[4] Business investment decisions must be made based on guesses about the inherently unknowable future economic conditions that a firm will encounter, which makes the level of total investment unstable and subject to waves of optimism or pessimism. If business investment declines, total demand in the economy will decline as a result, and goods will pile up on the shelves. This prompts firms to cut production and lay off workers, causing household income and spending to fall, driving the economy downward further into a mild recession or even a severe depression.

This theory of the macroeconomy underpinned a new view of the proper role of the state in a capitalist economy. Keynes, a social reformer rather than a revolutionary, argued that the flaw he had identified in capitalist economies had a remedy ready at hand – active state intervention in the economy. When private investment declines, state spending should rise by a similar amount, keeping total demand at the level required to maintain full employment. Just as private business borrows to finance investment, the state should borrow to finance such increased spending, that is, it should run a deficit if necessary. Once private investment recovers, state spending can relinquish its expanded share of total demand.

The dominant economic orthodoxy of the period of regulated capitalism went beyond calls for an active fiscal policy.[5] The state came to be seen as an important actor in the economy, providing an expanding supply of such public goods as infrastructure (transportation, power, communication, sanitary facilities) and education, which would contribute not just to economic progress but also to the profitability of private business. The state was also seen as responsible for pursuing other goals such as reduced income inequality and greater economic security for individuals. In the postwar decades, the term "capitalism" practically disappeared from public discourse, replaced by the "mixed economy" in which private and state institutions both had major contributions to make. Perhaps the best name for this dominant orthodoxy of economic ideas is "interventionist economics."

The new interventionist economic theory was embodied in MIT economist Paul Samuelson's textbook *Economics*, introduced in 1948. That book provided the model for all major college introductory economics textbooks over the following several decades. The reign of interventionist economics reached its peak in the 1960s, during the administrations of presidents John F. Kennedy and Lyndon B. Johnson. Advocates of this economic theory occupied key economic policy posts and dominated the policy debates. Even President Richard Nixon announced in 1971 that "I am now a Keynesian in economics."[6]

However, during the course of the 1970s the interventionist economic orthodoxy was replaced, quite rapidly, by a new one – free-market, or neoliberal, economic thought. Neoliberal thought rests upon a highly individualistic conception of human society.[7] Human welfare is seen as dependent upon free individual choice, with market relations understood as the institution that allows individual choice to drive the economy. The state, by contrast, is seen as an enemy of individual liberty, a threat to private property, and a parasite living off the hard work of individuals. In the mid/late 1970s Milton Friedman of the University of Chicago, having survived a long period in the intellectual wilderness, emerged, along with Frederick Hayek, as the guru of the newly dominant neoliberal economic thought.

The new neoliberal orthodoxy came in several variants, bearing such names as monetarism, rational expectations theory, supply side economics, crowding-out theory, and real business cycle theory. However, they are all based on the elevation of individual choice in unregulated markets to the position of the central economic act, while state economic activities are portrayed as either ineffectual and thereby wasteful, or actively harmful. Exceptions are made for the military and public order functions of the state. Neoliberal theory asserts that a "free" (meaning unregulated) market system assures optimal economic outcomes in every respect – efficiency, income distribution, economic growth, and technological progress – as well as securing individual liberty.[8] This theory claims that a capitalist economy naturally maintains full employment and an optimal rate of economic growth, and any state interventions aimed at promoting those goals are not just unnecessary but will worsen economic performance.

While the emergence of a newly dominant neoliberal theory cannot by itself explain the big changes in economic and political institutions in the neoliberal era, it has provided a powerful justification for them. Neoliberal theory asserted that the institutional changes that took place after around 1980 were necessary for economic prosperity and would benefit everyone.

Neoliberalism is often described by reference to a trilogy of policies known as liberalization, privatization, and stabilization. However, the policies associated with those terms are best understood as means to transform the institutions of regulated capitalism into the institutions of neoliberal capitalism. The main institutions that radically changed with the rise of neoliberal capitalism fall into four categories: 1) the global economy; 2) the role of government in the economy; 3) the capital-labor relation; and 4) the corporate sector. Each institution of neoliberal capitalism will be examined, against the background of the contrasting institution of the regulated capitalist era from which it evolved.

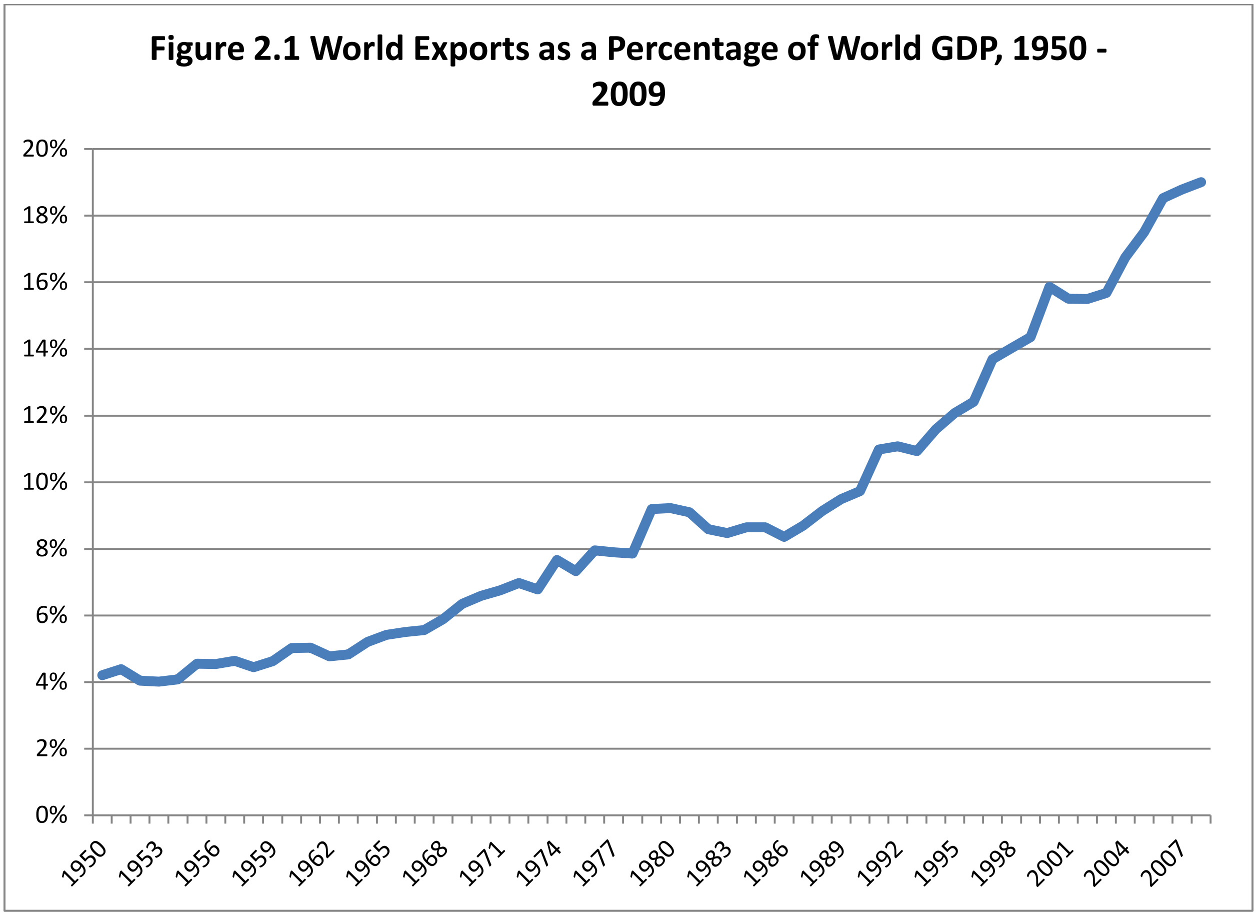
The Global Economy

The Bretton Woods system arose to manage the international economy in the period of regulated capitalism. That system was named after a 1944 conference in Bretton Woods, New

Hampshire, that laid down the initial design of the postwar international economic system. It gave birth to the International Monetary Fund (IMF) and the World Bank, which were to oversee the new global system. While the Bretton Woods system encouraged trade in goods and the gradual reduction of tariff barriers, significant tariffs were allowed under certain conditions, and states had the right to regulate capital movements in various ways. This produced a global system that was somewhat open to international trade but with significant barriers, particularly for capital movements. The US dollar was backed by gold, and exchange rates among the currencies of the major powers were fixed, requiring IMF approval for any change in a nation's relative currency value.

During 1967-73 the Bretton Woods system broke down in stages, finally collapsing in 1973 when the U.S. government announced that the US dollar would be allowed to "float" – that is, to rise and fall based on market forces in international currency markets This ended the system of fixed exchange rates that had been at the center of the Bretton Woods system. After a period of chaos in the international monetary system in the 1970s, a new system emerged in the early 1980s that had two main features. First, a "managed float" developed, with governments allowing international currency markets to play a major role in setting currency values but with significant interventions by national central banks aimed at influencing the result.[9]

Second, and more importantly, the new system emphasized free movement of goods, services, capital, and money across national boundaries.[10] The IMF and World Bank remained in business but their roles changed, as they became the enforcers of a new, more open global system of trade, investment, and money, as well as major promoters of other features of neoliberalism around the world. Some new organizations arose over time, the most important of which is the World Trade Organization, born in 1995, whose aim is to enforce free trade. In the neoliberal era, the global economy became much more open than it had been in the regulated capitalist era. Figure 2.1 shows that world exports relative to world GDP, which had begun to increase significantly after the mid 1960s, grew much more rapidly after the early 1980s.



Source: IMF International Financial Statistics; Maddison (2013).
Note: World Exports and World GDP are in 2005 US dollars.

The Role of Government in the Economy

While not all of the important institutional changes in the neoliberal era directly involved the role of the government in the economy, the latter represented a major part of the neoliberal restructuring that began in the late 1970s. In the U.S. a series of changes in the role of the state took place, which together transformed the relation between state and economy. Among the most important were the following: 1) renunciation of Keynesian-inspired government demand management policy; 2) deregulation of basic industries; 3) deregulation of the financial sector; 4) weakening of environmental, consumer product safety, and job safety regulation; 5) reduced enforcement of anti-trust laws; 6) privatization or contracting out of public functions; 7) elimination of or cutbacks in social welfare programs; 8) tax cuts for business and wealthy households.

First, in the neoliberal era Keynesian-inspired "demand management" policies were renounced. In the previous period the federal government had been committed to using spending, taxing, and monetary policy to counterbalance swings in private sector demand, to stabilize the business cycle, to keep unemployment low as well as preventing high inflation, and to promote economic growth over the long-run. Neoliberal economists believe such state interventions are unnecessary and even harmful. In the neoliberal era such active government policies were given up, as the official aim of fiscal policy became a balanced budget while monetary policy shifted to a sole focus on stable prices rather than a combination of low unemployment and low inflation. The appointment of Paul Volcker to the position of Chairman of the Federal Reserve (Fed) by President Jimmy Carter in 1979 marked the beginning of this policy shift. Volcker drove interest rates up to 20%, stopping the rapid inflation of that period by driving the economy into a deep recession and pushing the unemployment rate into the double digit range. Thereafter a low unemployment rate was no longer a goal of the Fed.[11]

Some observers mistakenly thought that the Reagan Administration actually continued Keynesian fiscal policies, since among its first acts in 1981 was a big tax cut intended to stimulate economic growth. However, the rationale for the Reagan tax cuts was not the Keynesian idea of increasing demand by leaving more income in consumers' pockets. President Reagan in his message to Congress on February 10, 1982, stated that "As a result of passage of the historic Economic Recovery Tax Act of 1981, we have set in place a fundamental reorientation of our tax laws ... we have significantly restructured it [the tax system] to encourage people to work, save, and invest more" (Peters and Wooley, 2013). The Reagan tax cuts were intended to encourage investment and greater work effort through the incentive effect of allowing households and businesses to keep more of what they earned. Neoliberal theory advocated simultaneous reductions in government spending to keep the budget balanced.[12] The underlying idea was that smaller government, in both revenues and spending, would lead to faster growth in the private sector.[13]

The second shift in the state role in the economy involved government regulation of key industries. The railroads and the new telephone industry came under government regulation shortly after the start of the twentieth century in the Progressive Era. A regulatory structure was later extended to electric power, airlines, long-distance trucking, and radio and television broadcasting.[14] Such infrastructure sectors were viewed as basic industries that had important elements of natural monopoly, requiring government oversight to assure that prices would be stable and not excessively high.[15] While the details of the regulatory structure varied among these sectors, the regulatory agencies generally set prices, regulated business practices, and had some control over investment in additional productive capacity. In some cases, such as telephone regulation, the company was guaranteed a fixed rate of profit on its investment.

Neoliberal economists argued that such regulation was unnecessary and harmful, stifling efficiency and technological innovation. Starting in the mid 1970s, all the aforementioned types of government regulation of business were dismantled, leaving only a few elements of regulation at the local level for electric power and cable systems where natural monopoly was undeniable. Deregulation got its start in the late 1970s in airlines and trucking during the Administration of Democratic President Jimmy Carter. Cornell economist Alfred Kahn was named by Carter to oversee airline deregulation, while Congress promoted trucking deregulation. Thus, as deregulation spread to the basic industries, market forces came to operate in those parts of the economy, replacing state regulation.

The third change in the state economic role was a shift from strict regulation of the financial sector to a largely deregulated financial sector. In the 1930s, following the collapse of the U.S. banking system in 1933, and spurred by Congressional hearings that exposed questionable activities by the leading bankers of the day, the federal government enacted a comprehensive system of regulation of the financial sector. The aim of this regulatory system was to assure the stability of the banks, to prevent bank failures and panics, and to promote what was seen as the proper, productive role of the financial sector while discouraging speculative activity. In the period of regulated capitalism following World War II, the banks were closely controlled by several regulatory agencies, which set interest rate ceilings for some types of loans, set allowable interest rates for some kinds of consumer deposits, and restricted the types of financial activities permitted for each type of financial institution. This produced a segmented financial system, with commercial banks lending to businesses, savings banks making commercial and home mortgage loans, insurance companies selling conventional insurance, and the less-regulated investment banks underwriting corporate security issues but forbidden to offer depository services. Commercial and savings bank deposits were federally insured, and their books were regularly inspected. Under this system there were no big bank failures or financial panics from the end of World War II through 1973 in the U.S.

In the 1970s the financial regulatory system began to experience some strains, as mutual funds intruded on the territory of banks by offering money market fund accounts paying high interest rates, while rising inflation put pressure on the interest rate ceilings set by the regulators. Neoliberal economists began a campaign against government regulation of finance, bringing out the same arguments used against regulation of infrastructure sectors, arguing that it led to inefficiency and stifled innovation.[16] They claimed that market competition among financial institutions was sufficient to assure optimum performance by the financial sector. Some even called for the repeal of federal deposit insurance, arguing that vigilant oversight by ordinary bank depositors made it unnecessary.[17]

In 1980, the last year of the Carter Administration, the first bank deregulation act was signed into law, followed by another in 1982.[18] The process of bank deregulation continued through 2000. The Financial Services Modernization Act of 1999 finally largely repealed the Glass-Steagall Act of 1933 which had forced financial institution to choose among deposit banking, investment banking, and sale of insurance. This allowed the formation of financial conglomerates for the first time since the Great Depression, which raised the possibility that funds in government insured deposits could be invested in risky financial activities. In 2000 the Commodity Futures Modernization Act forbade government regulation of derivative securities, the collapse of which was to play a big role in the financial meltdown of 2008.[19] Thus, a largely unregulated financial system gradually emerged in the U.S. during the neoliberal era, and by 2000 financial institutions had been fully freed to pursue whatever activity promised the highest rate of return.

The fourth change in the state role involved what is sometimes called "social regulation," to distinguish it from the "economic regulation" aimed natural monopolies and key sectors of the economy described above. Social regulation includes oversight of consumer product safety, job safety, and environmental quality. While the first steps toward government social regulation in the U.S. were taken in the early twentieth century, or even earlier, such regulation was greatly expanded in the decades following World War II. Consumer product safety regulation appeared in the first decade of the Twentieth Century, with passage of the Pure Food and Drug Act of 1906 and the Meat Inspection Act of the same year. In 1972 the Consumer Product Safety Act broadened the role of the federal government in assuring that consumer products would be safe. In the 1970s the Federal Trade Commission became more active in the area of consumer protection.

Modest efforts to make jobs safer in particularly dangerous industries, such as railroads and mining, occurred at both state and federal levels starting in the nineteenth century. In 1969 coal mining regulation was tightened with the passage of the Federal Coal Mine Safety and Health Act. Then in 1970 congress passed the comprehensive Occupational Safety and Health Act, a major step toward inserting the federal government into the regulation of job safety in the United States.[20]

Environmental protection legislation also has a long history going back to the early 20th century. Congress enacted a series of federal laws regulating environmental quality in the 1950s and 1960s, culminating in the Clean Air Acts of 1963 and 1970 and the National Environmental Policy Act of 1969. In 1970 the Nixon Administration created the Environmental Protection Agency to implement the recently passed legislation.

All three types of social regulation addressed harmful effects of business behavior on the population, as consumers, workers, and community residents. The significant expansion of social regulation during the postwar decades was driven by popular movements demanding that government should compel business to avoid harm to those constituencies in its pursuit of profit. The dominant economic ideas of that period justified such social regulation as necessary to address "market failures," in which the profit interests of business may lead companies to follow practices that harm individuals who have little or no ability to avoid such harm.[21]

The tide turned after Ronald Reagan took office in 1981. The Reagan Administration sought to weaken social regulation, viewing it as anti-business and an obstacle to economic growth. Reagan's 1981 statement that "trees cause more pollution than automobiles do" set the tone for his administration's environmental policies. He named long-time opponents of government regulation to key positions in his Administration, such as James Watt as Secretary of the Interior and Anne Gorsuch as head of the Environmental Protection Agency.[22]

The newly influential neoliberal economic theories provided support for social deregulation, arguing that individual actions such as lawsuits were a more effective means than government regulation to resolve any problems that business decisions might cause. James C. Miller III, an economist named as Reagan's first Chairman of the Federal Trade Commission in 1981, tried to reign in the activist lawyers in the FTC's Bureau of Consumer Protection by requiring that any action they initiated against unsafe products first get approval from one of the agency's free-market economists. In 1982 an FTC economist temporarily blocked a proposed FTC order requiring the repair of leaky valves in the cold-water survival suits kept on merchant vessels and off-shore oil rigs. The Coast Guard had found that some 90% of the suits, meant to keep a worker alive if plunged into cold ocean waters, had defective valves, whose repair would cost about 10 cents per valve. The FTC economist ruled that no government regulatory action was needed, on the grounds that lawsuits by affected parties or their survivors were a superior way to handle the problem (Kotz, 1987, p. 166).[23]

Unlike in the case of bank regulation and regulation of natural monopolies, social regulation was not eliminated, due to the widespread public support for it. However, enforcement was significantly weakened in the neoliberal era. A key means of weakening social regulation was the introduction of so-called cost-benefit analysis of social regulations. Neoliberal economists made the seemingly reasonable argument that, to be justified, a regulation should yield benefits that exceed its costs. The Environmental Protection Act had cited as its basic principle the prevention of environmental destruction, not a balancing of costs and benefits. Supporters of social regulation pointed out that in cost-benefit studies the cost of regulations tends to be derived from affected businesses' estimates of their cost of compliance, which they have a strong incentive to overstate, while the benefits of social regulation are very difficult and in some cases impossible to quantify. Hence, cost-benefit analysis tends to be stacked against regulation.

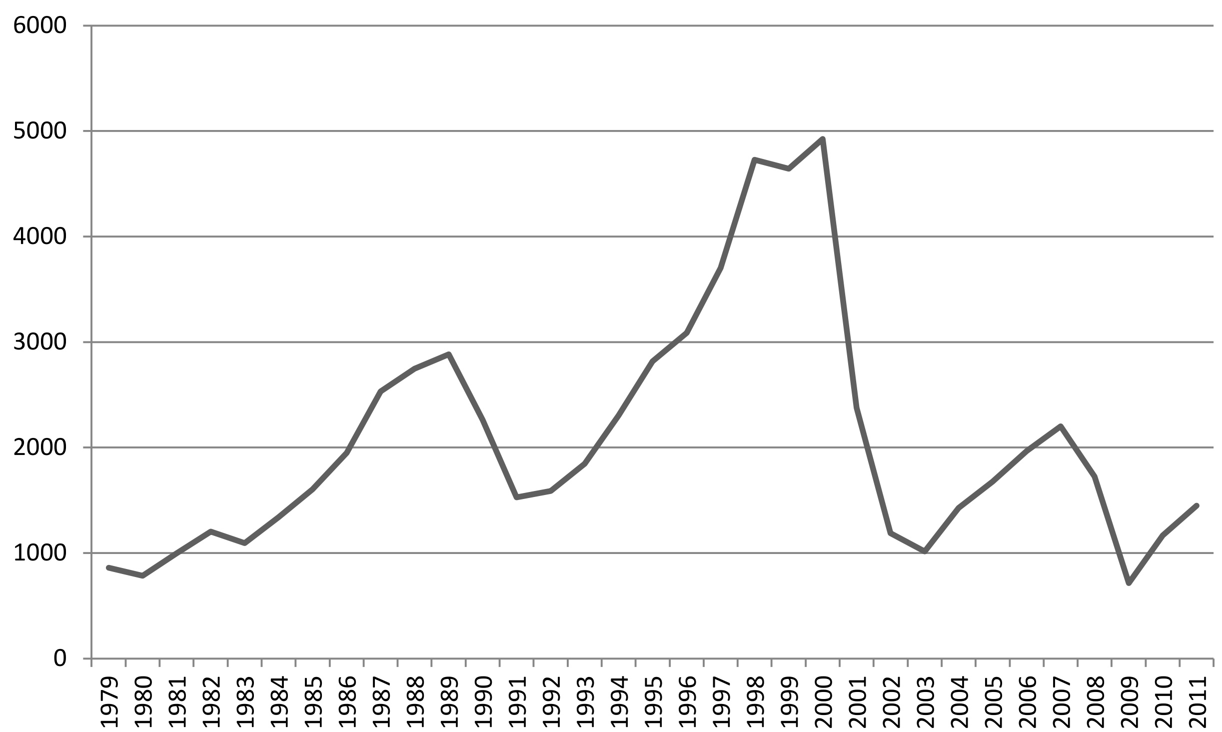
The fifth change in the role of government was a significant pull-back from enforcement of anti-trust laws. America's anti-monopoly laws were passed in two waves, the Sherman Anti-Trust Act in 1890 and the Clayton Anti-Trust Act and Federal Trade Commission Act in 1914. There is historical controversy about the political origin of anti-trust, but the strongest case can be made for the view that it originated in response to a powerful mass movement of small farmers and small business against the new giant railroads, grain wholesalers, the Standard Oil Trust and other new large monopolistic enterprises, and not least the New York banks that were closely associated with the rise of giant corporations in that period. Middle-class social reformers entered the fray as well during the Progressive Era of 1900-16. The result was a legal framework aimed at preventing the accumulation of monopoly power by business firms through mergers and other means and also outlawing certain "unfair" or monopolistic business practices.

The Progressive Era produced an initial period of vigorous anti-monopoly enforcement that included the prosecution of nine of the largest new trusts, resulting in the breakup of the Standard Oil Trust and the Tobacco Trust in 1911. However, after World War I anti-trust enforcement was loosened, to be tightened again in the 1930s under the New Deal. In the post-World War II decades, anti-trust laws were enforced relatively vigorously, but contrary to the popular impression, almost all anti-trust actions responded to complaints, not from ordinary consumers, but from businesses. The great majority of market exchanges in a modern economy are between two business firms as seller and buyer, with a small trickle of final output sold to households emerging at the end. The anti-trust laws evolved to become a framework for regulation of the competitive process, aimed at preventing any one company or small group of companies from taking undue advantage of the businesses to which they sold their product.

Toward the end of the period of regulated capitalism, proposals arose in the US Senate to use anti-trust law to undertake a major down-sizing of big business. The proposed Hart Deconcentration bill threatened to break up leading firms in every industry in which the top four firms had a large share of the business.[24] Although the proposal never became law, it terrified big corporations with the prospect of dismemberment.

After 1981 anti-trust enforcement was significantly eased. Proposed corporate mergers received less scrutiny, and a merger wave occurred in the 1980s, followed by a much larger one in the 1990s, as figure 2.2 shows.[25] As for the other areas of state withdrawal, neoliberal economists provided justifications. A theory of "contestable markets" arose arguing that even an industry with only one firm could be a competitive one, as long as the firm faced potential entry of new firms. Domination of many industries by a few giants with very high profits did not indicate monopoly power but rather the success of the few firms that were the most efficient ones in the industry which grew and displaced their less efficient rivals. According to the new neoliberal theories of competition, where monopoly power existed in the economy, it was the product of government coercion through such practices as requiring a license to enter a profession, not the actions of private firms.

Figure 2.2 Merger transactions reported to the Federal Trade Commission, 1979 - 2011



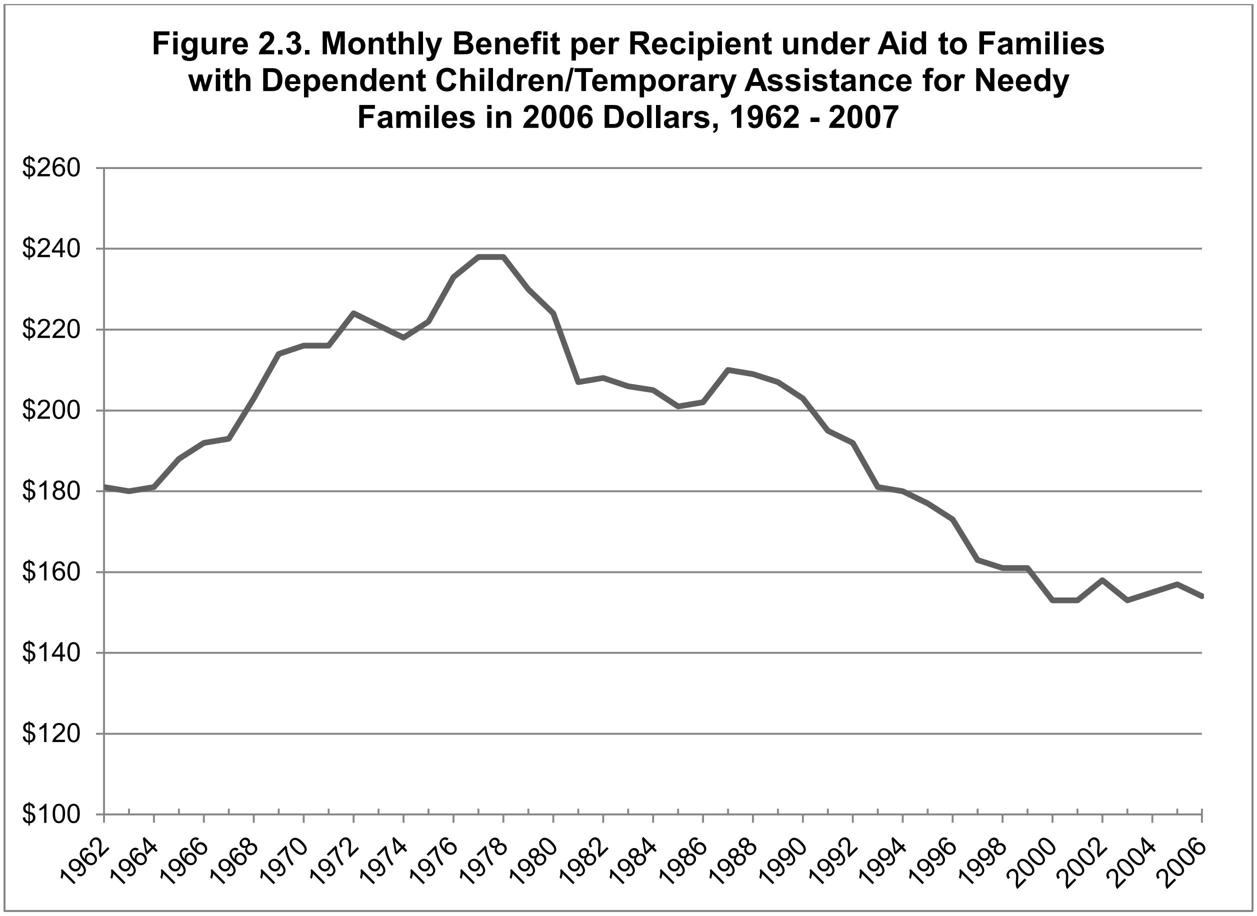
Source: Federal Trade Commission, 2013.

The sixth change was the privatization of public functions. In the regulated capitalist era following World War II, in many West European countries, such as France and the UK, state-owned enterprises came to compose a large part of industry. Unlike most other developed capitalist countries, the US never developed a large sector of state owned enterprises.[26] In the neoliberal era the previous process of building an expanded public sector providing public goods and services directly to the population was reversed, as privatization became the order of the day.

In Europe privatization meant selling off state owned enterprises. In developing countries where publicly owned oil and other natural resources companies had been formed in the post-war decades, governments sold them off, usually to investors from the US or Europe. However, in the United States privatization took the form mainly of contracting out public services to private companies rather than the sell-off of state owned enterprises. Not only were auxiliary aspects of public services contracted out, such as cafeterias in public buildings, but core public functions as well. This took place in social services, housing for the poor, schools, prisons, and even military functions, as it was learned during the Iraq War when private contractors supplied a significant proportion of those under arms. A proposal even surfaced in Congress in the 2000s to contract out federal tax collection to private firms, although this proposal was buried by charges of the revival of Medieval tax farming with its notorious abuses.

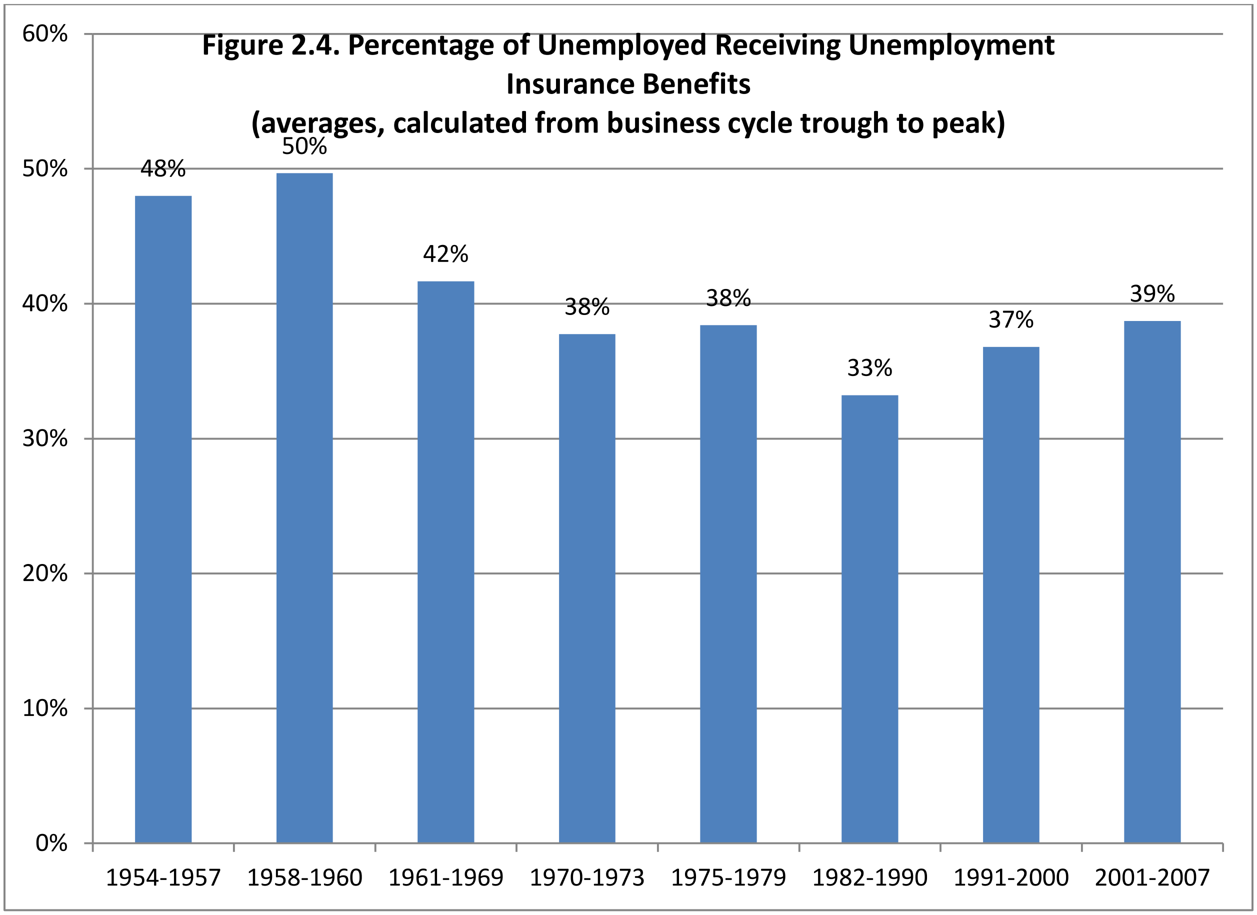
The dominant economic theory of the regulated capitalist era had granted a place for direct government provision of public goods and services. By contrast, a core principle of neoliberal economic theory is that government is inherently inefficient while private for-profit companies operating in the market are optimally efficient. Hence, it follows that whatever goods and services government must be responsible for can be provided more effectively by private for-profit companies.

The seventh area of pullback by the state was the elimination or cutback of social welfare and income maintenance programs. In the regulated capitalist era such government programs as welfare payments for low-income people, social security retirement pensions, unemployment compensation, and minimum wage laws were viewed as measures that reduced the poverty and inequality that resulted from the operation of the market economy while increasing economic security in the face of the unpredictability of market forces. Taking a different view, neoliberal economists argued that such programs interfered with work incentives, created a government-dependent population, absorbed resources better devoted to private saving and investment, and in the case of the minimum wage, led to unemployment of low-skilled workers. A theme was that such programs only harmed the very groups they were intended to help.[27]



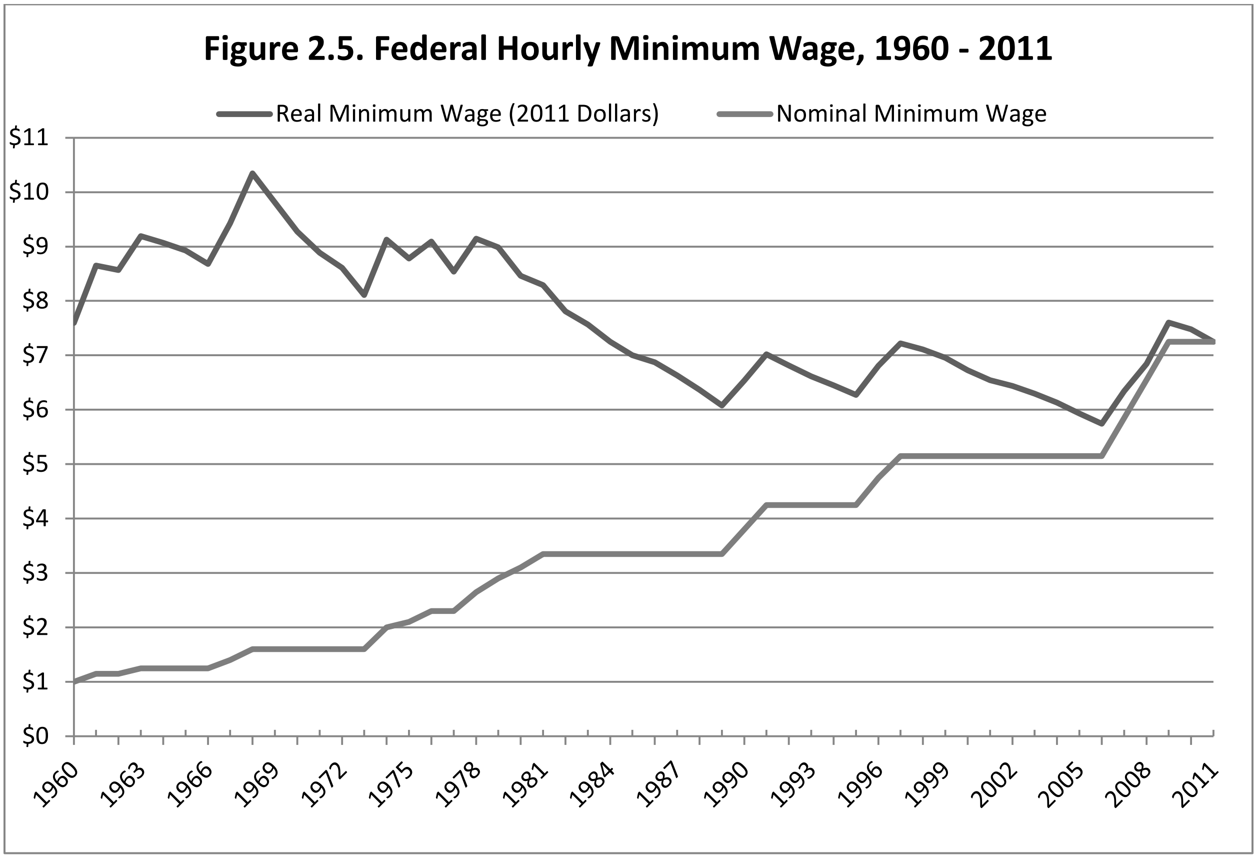
Source: US Department of Health and Human Services, 2008 Indicators of Welfare Dependence, Appendix A, Table TANF 6, downloaded from http://aspe.hhs.gov/hsp/indicators08/apa.shtml on March 14, 2013.

After 1980 America's social welfare programs were weakened and some were eliminated. In 1996 the main income support program for poor people, Aid to Families with Dependent Children, was abolished and replaced by Temporary Assistance for Needy Families, which provided support that was temporary and less generous. As figure 2.3 shows, the benefit level under AFDC/TANF rose to a peak in 1977-78, after which it trended downward to a level 35 percent below its 1978 value by 2006. While Social Security was too popular to eliminate (or privatize), even it suffered marginal cutbacks over the neoliberal era, as the retirement age was increased. Unemployment compensation, which is a joint federal-state program, had covered almost half of the officially unemployed in the 1950s, as figure 2.4 shows. The percentage covered declined in the 1960s and dropped further in the 1970s. In the 1980s, it fell to only one-third of the unemployed covered by unemployment compensation. This weakened labor's bargaining power in the decade when the neoliberal form of capitalism was consolidated, although the percentage covered rose again in the 1990s and 2000s.



Source: U.S. Department of Labor website http://www.doleta.gov/unemploy/chartbook.cfm, 2013.

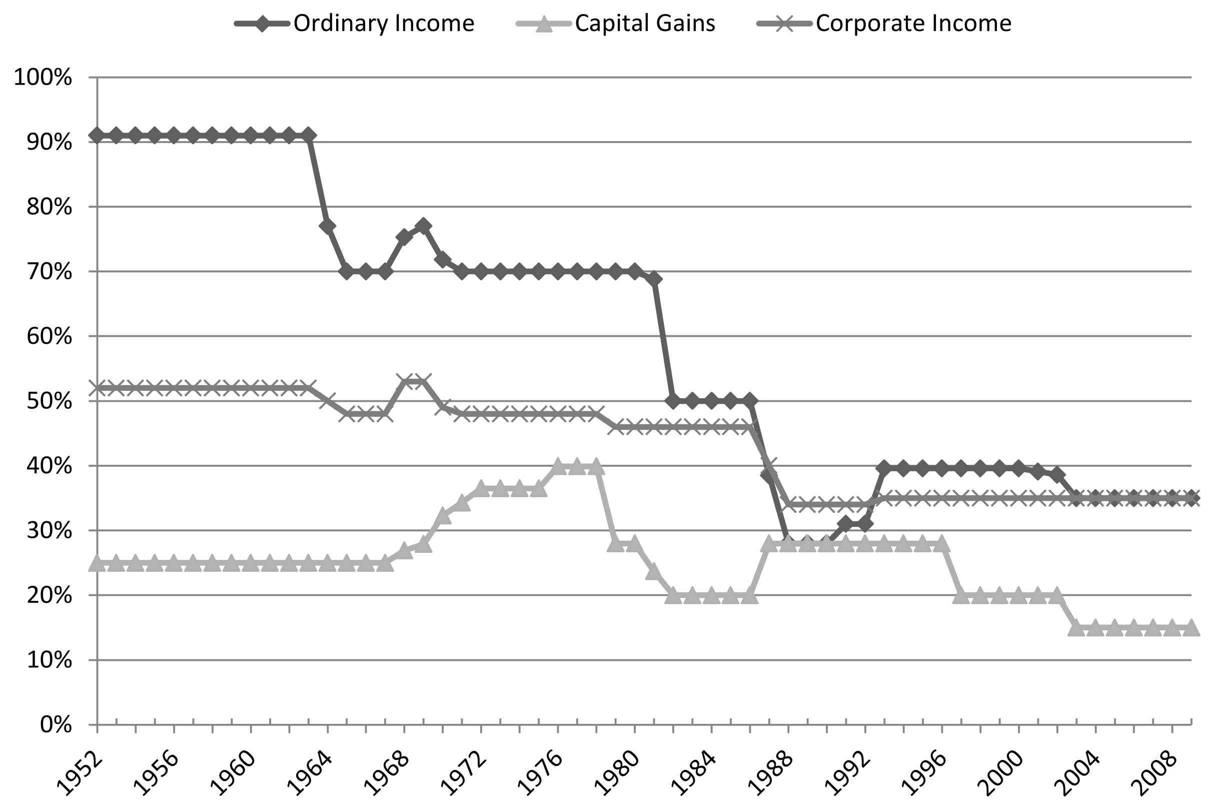
The buying power of the federal minimum wage fell sharply in the neoliberal era. Figure 2.5 shows the federal minimum wage in current dollars and the "real" minimum wage which is corrected for inflation. In the mid 1960s the real minimum wage was briefly over $10 an hour in 2011 dollars, then varied around $9 an hour in the 1970s. Starting in 1979 it declined steadily to $6.08 an hour in 1989, a decline of almost one-third, because Congress did not increase it in the face of inflation in that period. In the 1990s and 2000s it ranged between about $6 and $7 an hour in 2011 dollars until the onset of the 2008 economic crisis. A declining real minimum wage affects a much larger share of the labor force than those who earn that level of pay, since an increase in the minimum wage tends to cause the wages in the entire lower-wage segment of jobs to rise as well.



Sources: U.S. Department of Labor Wage and Hour Division, http://www.dol.gov/whd/; Bureau of Labor Statistics, http://www.bls.gov/.
Note: Data deflated using the CPI-U index.

Eighth, and last in our list of changes in the government role, the tax system changed greatly in the neoliberal era. In the early part of the regulated capitalist era, the U.S. tax system was relatively progressive, with high tax rates on the highest household incomes and a 50% tax rate on corporate profits, although there were some regressive elements in the tax system. As figure 2.6 shows, in the 1950s the marginal tax rate on the highest incomes was 91%. The top marginal personal income tax rate fell to 70% in the 1960s. Then after 1981 it fell steeply, reaching a low of 28% in 1988, before rising somewhat in the 1990s. The corporate income tax rate remained near 50% until 1988, when it fell to 34%. The tax rate on capital gains, almost all of which falls on the rich, fell to 15% in 2003. In the neoliberal era tax incidence shifted significantly away from business and the rich toward those at the middle of the income distribution.

Figure 2.6. Top Federal Marginal Tax Rates, 1952 - 2009



Source: Saez et al., 2012, table A1.

While income tax rates declined for corporations and high income households, payroll taxes for social security and medicare, which are regressive taxes that take a smaller share of income from high income earners, rose during the period. One partially offsetting program to this trend was the introduction of the Earned Income Tax Credit during the Clinton Administration. This program has provided significant additional income to low income working families with children. However, this was not sufficient to counter the sharp trend of increasing income inequality over the whole course of the neoliberal era.

The Capital-Labor Relation

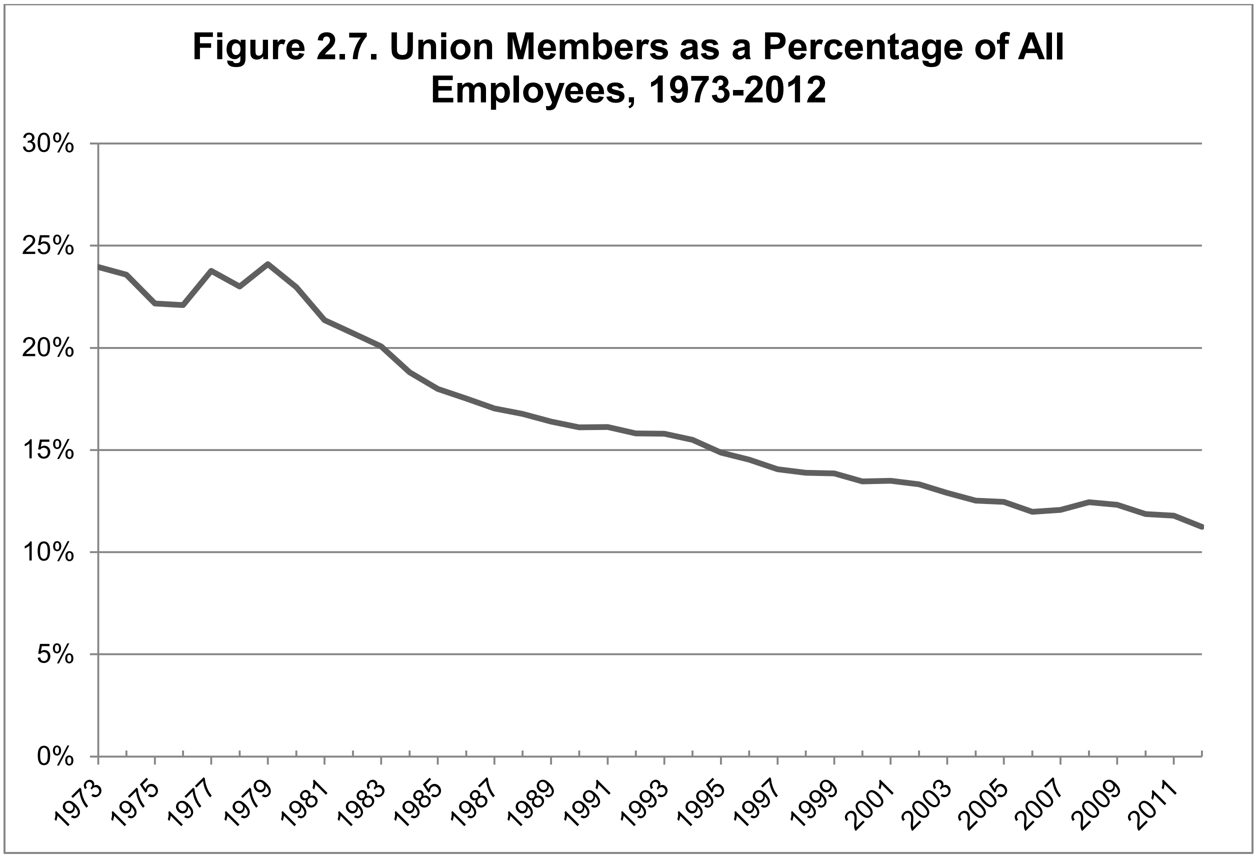
The character of the relation between employers and employees changed radically in the neoliberal era. This change is every bit as important for understanding neoliberal capitalism as the changes in the state role in the economy discussed above. A central institution of the regulated capitalist era in the U.S. was a stable form of collective bargaining between large corporations and trade unions that emerged after World War II. For the first time in US history, in a major part of the economy wages, hours, and working conditions were set by negotiation between companies and labor unions. This took place in most of the manufacturing industries that had come to be dominated by large corporations as well as in mining, construction, transportation, power, communication, some sections of wholesale and retail trade, and some sections of services. Collective bargaining mainly was established among large corporations, although some small companies also participated such as in the construction trades.

While the postwar capital-labor relation was not entirely peaceful, and strikes frequently occurred in major industries in the 1950s and 1960s, big corporations that engaged in collective bargaining normally did not try to get rid of the practice or drive out the unions, but accepted the legitimacy of trade unions.[28] That this was the case is suggested by the following statement by Republican presidential candidate Dwight Eisenhower during the general election campaign in 1952:

> I have no use for those ― regardless of their political party ― who hold some foolish dream of spinning the clock back to days when unorganized labor was a huddled, almost helpless mass.... Today in America unions have a secure place in our industrial life. Only a handful of unreconstructed reactionaries harbor the ugly thought of breaking unions. Only a fool would try to deprive working men and women of the right to join the union of their choice. [29]

In the neoliberal era the peaceful collective bargaining relation between employers and labor unions rapidly eroded. Big corporations that had previously accepted collective bargaining began to aggressively seek to reduce or eliminate any union role in the setting of wages and working conditions, and the federal government's stance toward unions shifted to one of hostility. From the mid 1930s through the early 1950s, union membership as a percentage of employment grew steadily, reaching 35.7% in 1953 (Hirsch, 2007). The impact of collective bargaining was significantly greater than the 35.7% figure might suggest, for two reasons. First, the number of employees covered by collective bargaining contracts exceeds the number of union members. Second, when a substantial percentage of companies are unionized, non-unionized employers are under pressure to offer wages and conditions that approximate those won through collective bargaining in order to prevent their employees from unionizing.

From its peak in 1953, the unionization rate declined gradually to 29.1% in 1970. From 1970-73 it fell further, to 24.0% in 1973.[30] As figure 2.7 shows, the rate then stabilized until 1979, as rising public sector unionization compensated for declining private sector unionization. After 1979 the unionization rate declined steadily, falling to 11.2% in 2011, which was below the rate in 1929 prior to the long expansion of unionization in the Great Depression and World War II.



Source: Hirsch, 2007, Data Appendix; and Hirsch and Macpherson, 2013.
Note: Union members include those in both the private and public sectors.

In the neoliberal era the determination of wages and working conditions passed from labor-management negotiation to market forces. As unions' power waned, even formerly strong unions, that had previously won relatively high wages, were forced to accept large wage cuts or two-tier wage structures providing wages for new hires as low as half the pay rate for current workers. Starting in the 1980s and spreading rapidly in the 1990s and 2000s, such two-tier wage structures appeared in basic manufacturing industries such as autos and steel as well as in airlines, the retail sector, and state and local government.[31]

Employers, now largely free from having to bargain with unions, began to transform the nature of jobs in many industries. There followed another institutional change in the capital-labor relation: the "casualization" of jobs. Over time a growing proportion of jobs in the U.S. became part-time or temporary. In the regulated capitalist era what has been called the "primary sector" of employment -- that is, stable, long-term jobs with relatively high pay, good fringe benefits, and regular pay increases over time -- made up an estimated 63.8% of all jobs in the U.S. in 1970 (Gordon et al., 1982, 211), while most of the remainder of employment, although lacking such good conditions, at least involved a standard, full-time employment relation. In the neoliberal era the number of such jobs shrank rapidly, as business demanded “flexible labor markets.” One study found that all forms of contingent jobs constituted one-third of total employment in the U.S. in 1997 (Kallberg, 2003, 162). The term “flexible labor markets” is ironic, in that flexibility for employers means they are free to define the terms of employment, while flexibility for workers means they have lost any say in their conditions and must accept whatever terms employers offer them.

The Corporate Sector

Several changes took place in the corporate sector in the neoliberal era. First, competition among large corporations took a new form. Under regulated capitalism, large firms had engaged in a restrained form of competition, sometimes called “co-respective competition.” While large companies sought to increase their market share at the expense of rivals through advertising and and product innovation, they followed accepted ground rules of competition. The most important rule was avoidance of price wars, or even price reductions. In the post-World War II period price leadership was a widespread practice in industries dominated by a few large firms. The largest or most powerful firm would set the price and the others would follow suit. If the price leader raised the price, the others would resist the temptation to undersell the price leader, instead raising their prices in lock-step. As long as there were no meetings or communications among the rival firms, price leadership did not run afoul of the anti-trust laws. Such co-respective competition brought stability to both prices and profits of large corporations, which typically made positive profits even in recession years as they resisted the temptation to cut prices when sales were falling.[32]

In the neoliberal era co-respective competition gave way to an unrestrained competition reminiscent of the late 19th century U.S. economy. Large price cuts, and price wars, returned to the world of large corporations. The relatively secure world of co-respective competition was replaced by a very different environment, in which even the largest firms were forced to confront the possibility not just of losing money for a period of time but of being driven out of business. In 1999 Jeffrey Garten, Dean of the Yale School of Management, stated that CEOs of large corporations now “feel they are in a brutally competitive world, and they think they are in a race for their lives” (*The New York Times*, 18 July 1999, section 4 p. 4). This contrasts sharply with the life of the large corporate CEO in the regulated capitalist era.

A second change in the corporate sector involved the manner of selection of the top corporate official, the CEO. In the regulated capitalist era, the normal practice in large corporations was to fill that position by promotion from within. Almost all CEOs were individuals who had spent their career working for the company, rising through the ranks and finally attaining the top position.

This practice produced CEOs who were "company men" (virtually all were male that era), who identified with the company. The channel through which a CEO had risen varied across companies, with some often promoting managers who specialized in production (frequently the case in oil companies) while other saw managers from sales or finance rise to the top – but whatever the specialty, the norm was promotion from within.

In the neoliberal era a market in CEOs developed as it became common for CEOs of large corporations to be hired from outside the company, often from another industry.[33] Top corporate officials often moved from one company to another over time. Rather than being a lifetime "company man," large corporate CEOs now had a material self-interest in building the appearance of successful management over a few years, to be positioned for getting a higher paying CEO position at another company.

A third change was the penetration of market principles within large corporations. In the nineteenth century Marx observed that large capitalist firms were internally much like planned economies. Within the firm, economic activity proceeds according to a plan laid out by the management. The relations among the employees is not that of market exchange but of jointly carrying out a plan. Market exchange takes over after the product is produced and ready for sale (and of course in the purchase of inputs by the firm). However, in the neoliberal era market relations intruded inside large corporations to some extent. Divisions came to be viewed as so many profit centers competing against one another, with those that showed success being allowed to expand while those that showed sub-par profit would be downsized or sold off.[34]

Fourth, and last, a particularly important change in the corporate sector involved the relation between financial institutions and non-financial corporations. Under regulated capitalism, financial institutions were forced by the regulatory system of that era to basically serve the non-financial sector. Financial institutions could not pursue whatever activity they expected would gain the highest rate of profit but were required to offer only those financial services allowed to each type of institution. As was noted above, commercial banks took deposits and made loans, largely to the business sector. Savings banks took deposits, paying slightly higher allowed interest rates, and made mortgage loans to homeowners and loans to small businesses. Insurance companies offered various types of conventional insurance. Investment banks floated bond and stock issues.[35]

In the neoliberal era, financial institutions gradually shifted their activities as the regulations were lifted in stages. As they became free to pursue whatever activity appeared most profitable, financial institutions increasingly engaged in risky and speculative activities. They created an array of complex new financial instruments, through a process referred to as "financial innovation," some of which had little or no relation to the non-financial sector, or only an indirect relation to it. The financial sector became largely independent of the non-financial sector, increasingly pursuing profit from the creation and buying and selling of financial assets, which was far more profitable than the traditional financial activities they had been constrained to engage in under regulated capitalism. However, such activities were far more profitable only until the financial structure they built came crashing down in 2008.

The Uneven Spread of Neoliberal Capitalism

When regulated capitalism arose after World War II, it soon became the dominant form of capitalism in practically the entire developed capitalist world, including Western Europe and Japan, as well as in the developing countries in Asia, Africa, and Latin America. There were differences in the exact form of regulated capitalism in the various parts of the world. In much of Western Europe it took the form of social democracy, in which state intervention in the economy was greater than in the US, the welfare programs were more generous, and labor had a stronger role than in the U.S. In Japan, a somewhat different form of regulated capitalism developed, with more state intervention but weaker social welfare programs and little influence for labor. In many developing countries, regulated capitalism took the form a "developmental state," in which the group controlling the state sought to use state power to promote rapid economic development

The neoliberal era has been different in its global distribution. Neoliberalism emerged first in the U.S. and U.K. It was adopted even more fully in some other countries, such as the formerly Communist Party ruled states of Eastern and Central Europe and those developing countries whose external debt caused them to fall under the control of the IMF, which imposed neoliberal restructuring on them. Neoliberal restructuring took place only to a limited extent in some continental Western European countries and practically not at all in Japan.

For a time after 1980 several east Asian countries maintained a developmental state, most notably South Korea. However, following the Asian financial crisis of 1997, a number of former developmental states underwent significant neoliberal restructuring. As China shifted away from an economy based on central planning and state-owned property after 1978, it adopted a form of developmental state system with a mixture of market and plan and private and state property. While China underwent neoliberal restructuring of its social programs and eliminated the former promise of guaranteed employment, it retained an interventionist state that has guided its economic development in the neoliberal era.

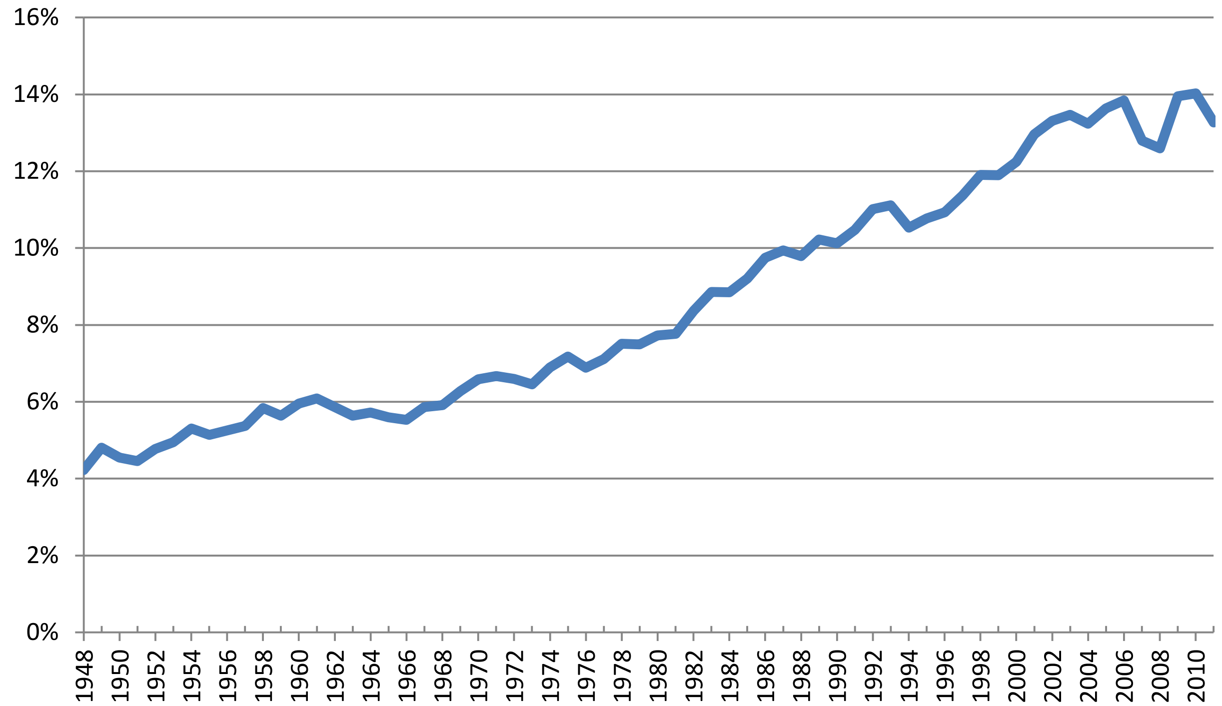
Perhaps the location in which neoliberalism has been most fully installed is in the institutions of the global economy (Kotz and McDonough, 2010). In individual nation-states the extent of neoliberal restructuring has varied significantly and changed over time. Nevertheless, this period well deserves the title of the "neoliberal era," given the significant neoliberal restructuring in the dominant capitalist state – the USA – and the need for every state to adjust to operating within a neoliberal global system dominated by the US.

Financialization and Globalization

During the neoliberal era, the role of finance and financial institutions in the economy expanded significantly. The term "financialization" came into use, meaning "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies" (Epstein, 2005, 3). Evidence of this development can be found in the increase in activity in financial markets, a rise in the value of financial assets, an increase in foreign exchange transactions compared to the volume of international trade, and other indicators of financial activity.[36] Some analysts view financialization as the main change in capitalism in recent decades, interpreting the form of capitalism since around 1980 through the lens of financialization rather than neoliberalism.[37]

Financialization, important though it undoubtedly is, can best be understood as an aspect of, and outgrowth of, neoliberal capitalism. By some measures, such as the increase in foreign exchange transactions relative to the volume of international trade, financialization appeared to begin in the 1970s.[38] Figure 2.8 shows the gross value added by financial corporations as a percentage of value added by all corporations in the U.S. From 1948 to 1981 financial gross value added rose gradually, from 4.2% to 7.8% of all corporate value added. After the first major financial deregulation laws were passed in 1980 and 1982, there followed the beginning of a steeper upward trend in financial value added as a share of the total, reaching 13.8% in 2006.[39] The financial deregulation laws, an important part of neoliberal restructuring, allowed the financialization process to get underway.

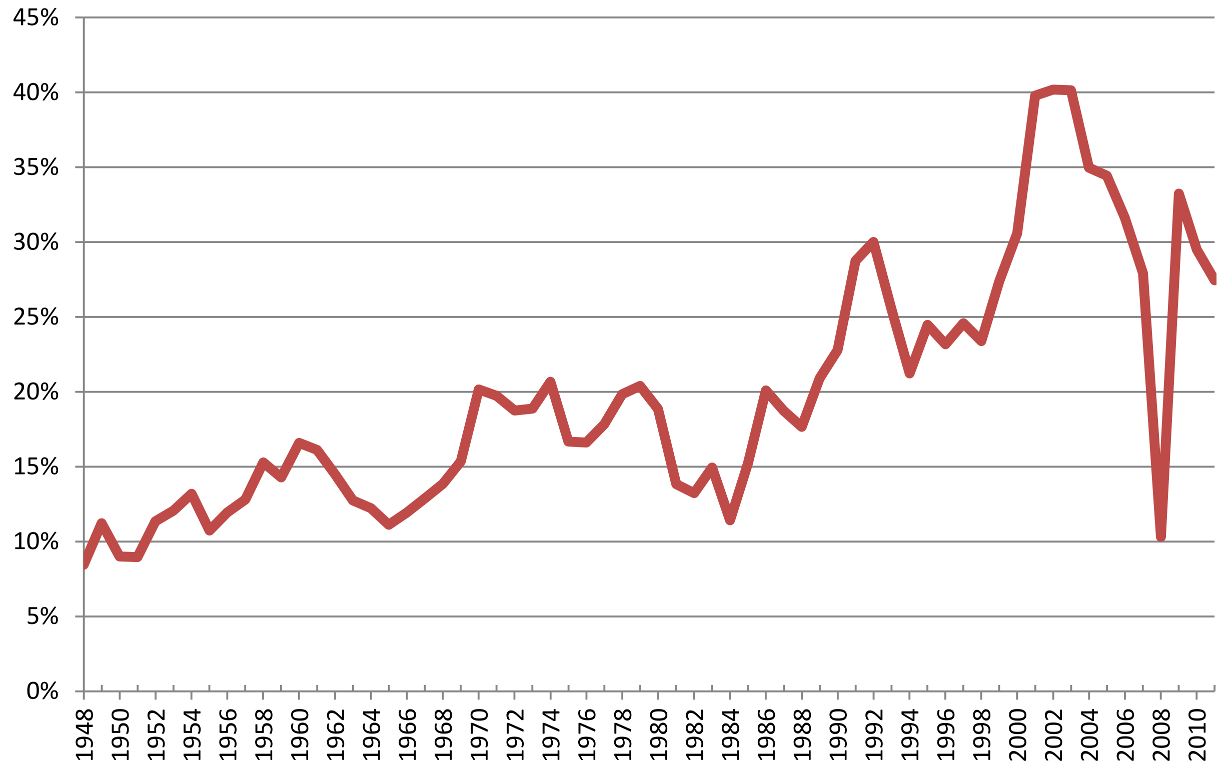
Figure 2.8. Gross Value Added of Financial Corporations as a Percentage of Gross Value Added of All Corporations in the U.S.



Source: U.S. Bureau of Economic Analysis, National Income and Product table 1.14, revision of Feb. 28, 2013.

It was the rise in financial profit that propelled the financial sector to a place of rapidly growing importance in the economy. Measured by value added, the financial sector did not loom large in the U.S. economy even by 2006, as indicated in figure 2.8. On the other hand, financial profit rose spectacularly and its rise came later. Figure 2.9 shows the percentage of financial corporate profit in total corporate profit in the U.S. From 1948 to 1970 financial profit rose gradually, if unevenly, from about 10% to 20% of total profit. However, after 1970 financial profit showed no growth trend through 1989, when it again hit 20%. Only after 1989 did financial profit begin a long and steep climb, interrupted by a fall in the mid 1990s, rising to a remarkable 40% of total profit in 2001-2003.[40] It was only in the 2000s that financialization fully blossomed. At that time commentators noted that Wall Street was beginning to draw a large percentage of elite college graduates.

Figure 2.9. Profits of Financial Corporations as a Percentage of Profits of All Corporations in the U.S.



Source: U.S. Bureau of Economic Analysis, National Income and Product table 1.14, revision of Feb. 28, 2013.

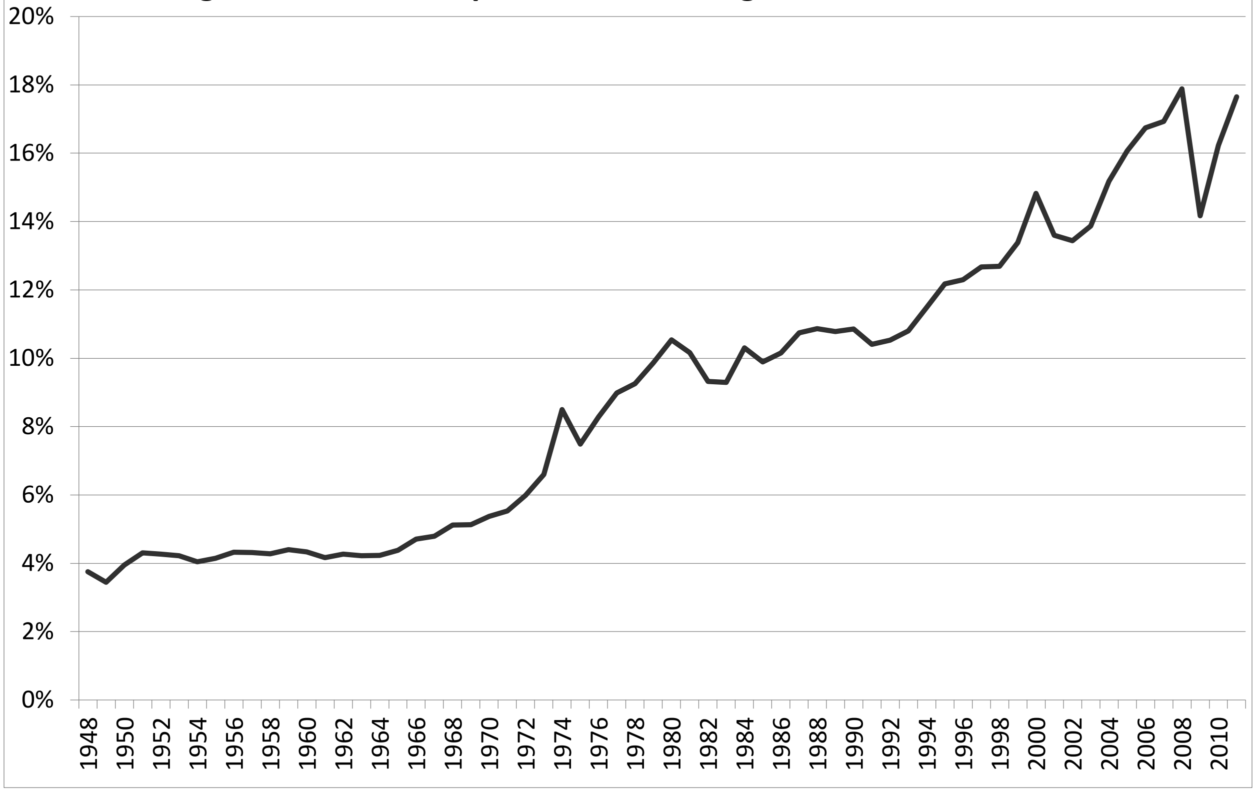
The evidence supports the view that financialization in recent decades was driven by neoliberal restructuring. The overall neoliberal institutional structure enabled financial institutions to appropriate a rapidly growing share of profit in the economy. Despite the importance of the financialization process, it cannot provide an adequate overall framework for understanding the development of capitalism in this period.

Globalization is another much discussed feature of contemporary capitalism. By globalization is meant a significant increase in the movement of goods, services, capital, and money across national boundaries, resulting in a capitalism that is more globally integrated than before. Even more so than for financialization, globalization has been presented as a framework for understanding the contemporary form of capitalism. For example, Bowles et al. (2005, 162-64), which like this author uses the social structure of accumulation theory, specifically reject the view that the state role in the economy has been reduced in this era. They refer to contemporary capitalism, which they date from about 1991, not as neoliberal capitalism but as “transnational capitalism." They argue that "its most distinctive feature, compared to what came before, is the integration of the U.S. economy into a world system of trade in goods, migration of people, exchange of knowledge, and footloose investors..." (163).

Capitalism became increasingly globalized in the decades prior to World War I. Then the interwar period saw a reduction in global economic integration. After World War II, the process of globalization resumed, gradually at first. However, by the late 1960s and early 1970s the degree of global economic integration was increasing, as figure 2.1 showed. Figure 2.10 shows that for the U.S. import penetration began to increase in the late 1960s, then rose rapidly in the 1970s. Thus, in contrast to financialization, which emerged later than neoliberalism, the globalization process in this era began before neoliberalism emerged, although globalization increased further in the neoliberal era particularly after 1990.

It can be argued that the increasing global economic integration of capitalism in the late 1960s through the 1970s was one factor that led to the emergence of neoliberalism (Kotz, 2002). However, many of the most important features of capitalism since 1980 cannot be understood or explained based on globalization. Globalization has been one factor strengthening the bargaining power of capital relative to labor, but it is by no means the only factor. Globalization cannot explain the financialization process and the rise of a speculatively-oriented financial sector, which have played a major role in contemporary capitalism. Globalization cannot fully explain the rapidly rising inequality in the contemporary era, which has been quite extreme in the U.S. yet much less so in some other coutries, such as Germany, that are even more integrated into the global economy than is the U.S. A belief that globalization is the central feature of capitalism in this period had led some analysts to predict, prior to 2008, that global economic and financial imbalances would bring the next big economic crisis, but that prediction turned out to be wrong. Like financialization, globalization has been an important feature of neoliberal capitalism but it is not its defining feature.

Figure 2.10. U.S. Imports as Percentage of GDP, 1948 - 2011



Source: U.S. Bureau of Economic Analysis International Transactions Table 1 and NIPA Table 1.1.5, downloaded February 28, 2013.
Note: Imports include goods and services.

Is it Liberal?

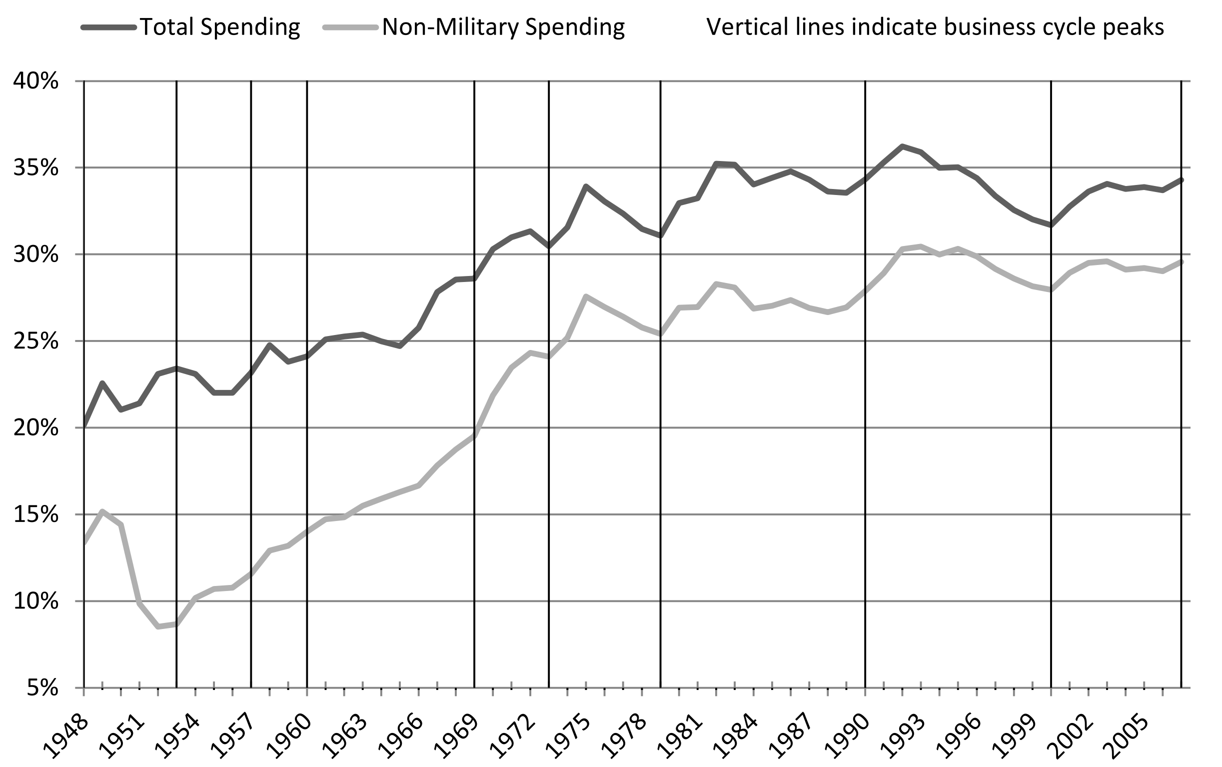
The concept "neoliberalism" might suggest a reduction in the size of the state. Has this actually happened in the neoliberal era? As the size of the economy grew, the state was bound to grow in absolute terms. A reasonable measure must be the size of the state in relation to the size of the overall economy.

There are several different ways to measure the size of the state. Economists distinguish three traditional measures, with the broadest one called government expenditure. The latter includes the value of goods and services produced by public employees, the cost of items purchased from the private sector, and government transfer payments such as social security retirement pensions, disability payments, and medical care payments for individual health care. [41] Furthermore, one can examine the federal government only or include state and local governments as well.

Figure 2.11 shows the broadest measure, government expenditure, as a percentage of GDP. [42] Since the business cycle greatly affects this measure, long-run trends can be seen by comparing business cycle peak years,[43] which are indicated by vertical lines in the figure.[44] Total government expenditure rose rapidly relative to GDP from 1948 to 1973, which is regarded as the regulated capitalist period. Using 1979 as the closest business cycle peak to the start of the neoliberal era, it rose further from 1979 to 1990, from 31.1% to 34.3% of GDP, then fell somewhat in 2000 and rose again in 2007. Looking at the series as a whole over the two periods, the trend was rising in 1948-73 and relatively flat in 1979-2007. If military spending – a type of spending that is supported by neoliberal ideology and that is greatly influenced by war and Cold War – is excluded, there is a sharp upward trend from 1953-73, followed by a more gradual upward trend in 1979-2007. The two narrower measures of the size of government, called value added and government purchases of goods and services, show rapid growth relative to GDP from 1948-73 followed by no growth or a slight decline relative to GDP during 1979-2007, both including and excluding the military category.

Thus, the data suggest that the size of government relative to GDP in the U.S. rose significantly in the regulated capitalist era and showed little change in the neoliberal era. While the sharply rising trend was arrested in the neoliberal era, the growth of the state was not significantly reversed by any of the measures. One could interpret this as a small success for the neoliberal agenda, yet it fell short of the goal its promoters had set.

Figure 2.11. Government Expenditure as Percentage of GDP, 1948-2007



Source: U.S. Bureau of Labor Statistics, National Income and Product Accounts tables 1.1.5, 3.2, 3.3, 3.9.5, revision of Feb. 28, 2013.

The size of the state is one indicator, but not the best indicator, of whether this form of capitalism can be considered "neoliberal." "Liberalism" calls for a state that does not "interfere" in the economy, letting the "free market" operate undisturbed. Has the state actually withdrawn significantly from regulation of the economy in the neoliberal era?

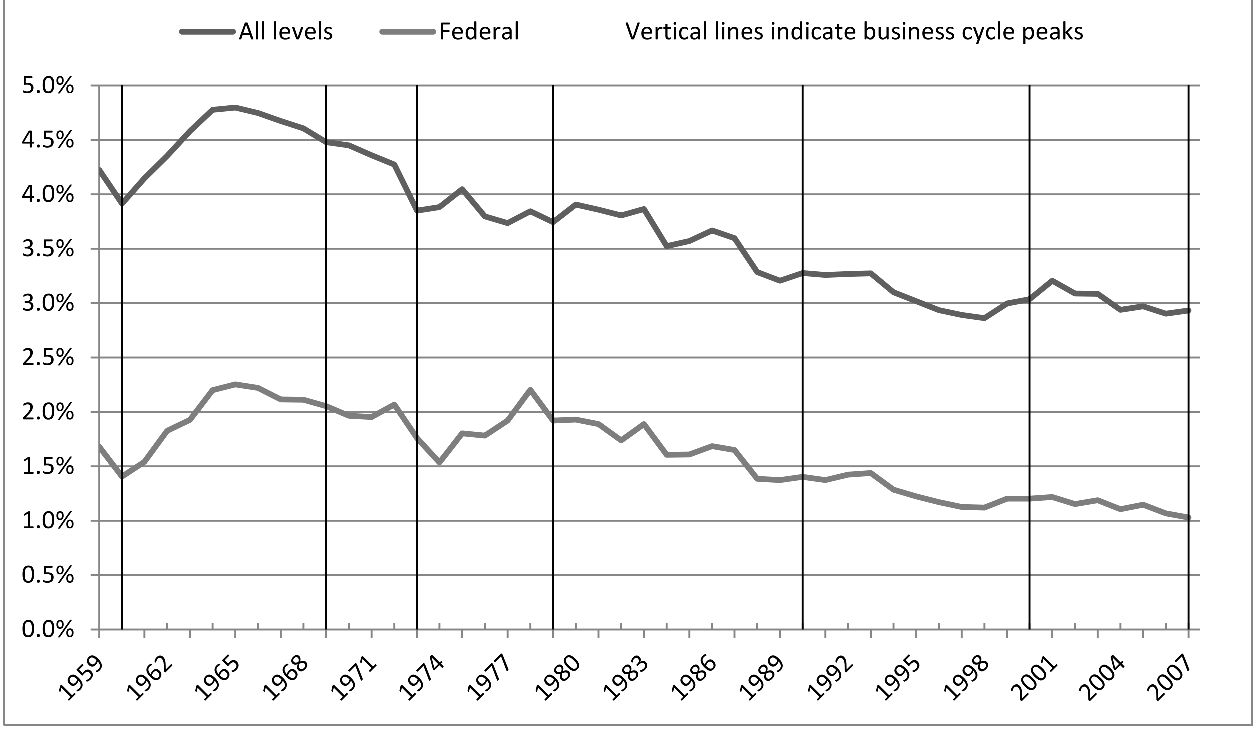
Some analysts argue that the state remained just as active, or even became more active, in regulation of the economy, although with a shift in government intervention away from those that benefit the majority and toward those that benefit big business and the rich. Perhaps the best example is the big expansion in the enforcement of so-called intellectual property rights in the neoliberal era. This has been cited as an example of the hypocrisy of neoliberal advocates, who decry government intervention in the market while taking draconian steps to prevent free market trading of intellectual creations whose distribution has virtually no cost.

On the contrary, active enforcement of intellectual property rights is entirely consistent with the neoliberal view of the proper role of the state. Neoliberal ideology is not anarchist ideology. It views the protection of private property rights as a proper role of the state, along with maintaining public order and providing a strong national defense. Private property cannot exist without state protection, if society is to avoid incessant conflict among its members over control of property. The extension of protection of intellectual property rights by the U.S. government, within the US and outside its borders, falls well within the neoliberal concept of the proper role of the state. Once the property rights are defined and enforced by the state, then the exercise of such property rights is left to the decisions of the property owners (and their attorneys) in market transactions. Similarly, the active use of military force and the massive increase in incarceration in the neoliberal era in the US fit within the neoliberal concept of the proper role of the state.

On the other hand, as was noted above, the state did withdraw from regulation and intervention in the economy in many respects in the neoliberal era. Even some types of government intervention in the economy that mainly benefit business were cut back, such as public infrastructure spending. Figure 2.12 provides an estimate of infrastructure spending by the federal government and by all levels of government as a percentage of GDP. After 1960 federal infrastructure spending rose and then remained stable though 1973 at about 2% of GDP. After 1979 federal infrastructure spending declined, including in the 1990s despite the Clinton Administration's promise to increase it, falling to 1% of GDP by 2007. Total government infrastructure spending rose to 4.8% of GDP in the mid 1960s, then gradually declined to 3.8% in 1973. After 1979 the trend was downward, reaching 2.9% in 2007. Weakened anti-trust enforcement is another example of a regulatory withdrawal that can be interpreted as harmful for business as a whole, since it has largely functioned to protect the majority of companies against monopoly power on the part of their suppliers.

Some discretionary government programs have survived in the neoliberal era, despite their contradiction to the neoliberal agenda, due to the political power of their beneficiaries. A good example is farm subsidies. But it is difficult to deny that the US state significantly reduced its regulation of, and intervention in, the economy in the neoliberal era, with the exception of those government roles approved by the neoliberal view as within the proper role of the state. On this ground, it is reasonable to view the current form of capitalism as a liberal one, by comparison to the previous strongly regulated form of capitalism.

Figure 2.12. Government Infrastructure Spending as a Percentage of GDP



Source: U.S. Bureau of Labor Statistics, National Income and Product Accounts tables 3.17, 1.1.5, revision of Feb. 28, 2013.
Note: Infrastructure spending includes investment and current consumption in the category of economic affairs.

Although neoliberal capitalism has been presented so far as a list of ideas and institutions, it does have a unifying principle. Figure 2.13 summarizes the main ideas and institutions of neoliberal capitalism in the U.S. The unifying principle is the greatly expanded role of market relations and market forces in the regulation of economic activity, with a reduced role for regulation by other types of relations and institutions such as states, corporate bureaucracies, trade unions, and professions.

Every one of the institutional changes in figure 2.13 involves an expansion of the market. For a few, that may not be so obvious, such as tax cuts for business and the rich, or the separation of the financial sector from its traditional relation to the real sector. However, tax cuts for business and the rich are a way to redirect funds that had been in the hands of the state back to their original private recipients, who thereby have additional funds for market transactions. The financial sector, now free of financial regulation, was able to follow market incentives which led it away from traditional roles and practices. Neoliberal ideas, with their glorification of unfettered market relations and denial of a need for collective interventions in the face of market failures, provide a powerful justification for the shift away from non-market forms of regulation and toward an expanded role for the market. Neoliberal ideology presents a case that such a shift will secure both economic prosperity and individual freedom.

Figure 2.13. The Ideas and Institutions of Neoliberal Capitalism

1. Dominance of economic ideas and theories that view an unregulated market system as optimal and view state intervention as a threat to economic efficiency and individual liberty.

2. The Global Economy: Removal of barriers to the movement of goods, services, capital, and money across national boundaries.

3. The Role of Government in the Economy
    a) Renunciation of aggregate demand management
    b) Deregulation of basic industries
    c) Deregulation of the financial sector
    d) Weakening of regulation of consumer product safety, job safety, and the environment
    e) Weakening of anti-trust enforcement
    f) Privatization and contracting out of public goods and services
    g) Cutbacks in or elimination of social welfare programs
    h) Tax cuts for business and the rich

4. The Capital-Labor Relation
    a) Marginalization of collective bargaining
    b) Casualization of jobs

5. The Corporate Sector
    a) Unrestrained competition
    b) Corporate CEOs hired from outside the corporation
    c) Market principles penetrate inside corporations
    d) Financial institutions shift toward new types of activities and become relatively independent of the non-financial sector

In order to promote profit-making and stable capital accumulation, every institutional form of capitalism, or social structure of accumulation (SSA), must stabilize the capital-labor relation, which is central to both profit-making and accumulation. There are two ways this relation can be stabilized under capitalism – via a compromise between the two sides, or through capitalist domination of labor sufficiently great that labor has little ability to defend its interests.[45] Postwar regulated capitalism was based on the former mode of stabilization of the capital-labor relation – capital-labor compromise -- while neoliberal capitalism is based on a thorough domination of capital over labor. The thorough domination of capital over labor in the neoliberal era can be seen in various developments, including the sharp break in the trend of real wages after the 1970s – from regular annual increases to stagnation – as well as the decline in unionization, the sharp increase in income inequality, and the remarkable rise in corporate CEO salaries.

This raises the following question: What is the connection between the central organizing principle embodied in the ideas and institutions of neoliberal capitalism – the greatly expanded role for market relations and market forces – and the shift from capital-labor compromise to thorough domination of capital over labor? Neoliberal ideology says nothing explicitly about the power relation between capital and labor. While a few of the institutions listed in figure 2.13 obviously are related to this change in the capital-labor relation – particularly the marginalization of collective bargaining and the casualization of jobs – for some others the connection to the increased power of capital is not so obvious.

Although not so obvious, most, if not all, of the institutions in figure 2.13 directly or indirectly reinforced the new thorough domination of capital over labor. Globalization empowered capital to move wherever labor is cheapest. Renunciation of aggregate demand management aimed at a low unemployment rate weakened labor's bargaining power, as did the cutbacks in social welfare programs. Deregulation of basic industries, where unions had been strong and wages relatively high, was followed by sharp drops in wages in those industries. Privatization and contracting out often replaced well-paid, unionized public sector jobs by low-wage private sector jobs in non-unionized companies. Unrestrained competition among large corporations made it difficult for them to afford union wages and put pressure on them to get rid of the union in their company.

Some analysts argue that the key feature of the current form of capitalism is thorough capitalist domination of labor <u>rather than</u> the expansion of market relations and market forces. The interpretation presented here holds that these two features of neoliberal capitalism are consistent with, and related to, one another. The neoliberal transformation of capitalism, from a form of capitalism in which non-market institutions played a major role in regulating economic activity to the current form in which market relations and forces predominate, promoted the increasing power of capital over labor.

The relation between expansion of market relations and capitalist domination of labor can be understood only by a historical examination of the conditions in which neoliberal capitalism emerged starting in the 1970s. A strong case can be made that, during the economic crisis of the

1970s in the U.S. (and elsewhere), big business gradually abandoned their previous support for the regulated form of capitalism and shifted to support for neoliberal transformation. Determined to assert full domination over labor, neoliberal transformation represented the best, and perhaps the only, route for achieving such domination in the economic and political conditions of the 1970s. Allying with small business, which had always opposed regulated capitalism, big business was able to rapidly impose neoliberal restructuring. Presenting such a historical analysis is beyond the scope of this paper, but it can be found in Kotz (2014, chapter 3).

Neoliberal Capitalism and the Crisis

The claim that the concept "neoliberal capitalism" best captures contemporary capitalism is not just a matter of words. The full set of features of neoliberal capitalism – not just its globalized or financialized aspects – provides the most compelling basis for explaining both the relatively long and stable economic expansions from the early 1980s through 2007 and the severe financial and economic crisis that broke out in 2008. Such an explanation of the several decades of the so-called "Great Moderation" and of the following crisis is offered in Kotz (2009; and 2014 ch 4 and 6).

In brief, all of the institutions of neoliberal capitalism, supported by its dominant ideas and economic theories, worked together to produce three developments in the U.S. economy: 1) growing gap between profits and wages and increasing inequality among households; 2) a financial sector that became increasingly absorbed in speculative and risky activities; 3) a series of ever larger asset bubbles. Rising profits stimulated economic expansion, while the problem of potentially inadequate aggregate demand in the face of stagnating wages was resolved by growing household consumer spending made possible by asset-bubble fueled borrowing, with speculatively-oriented financial institutions providing the loans. The weak bargaining position of labor, combined with the high degree of competition among capitalists, kept inflation in check even when the unemployment rate became relatively low. Each long expansion was fueled by an asset bubble.

However, this regime produced unsustainable trends. It gave rise to long expansions only by inducing a steady buildup of household debt, which doubled from 1980 to 2007 relative to disposable personal income (Kotz, 2009). A sequence of assets bubbles with each larger than its predecessor was unsustainable. The unrestrained pursuit of profit by the speculatively-oriented and deregulated financial sector led to increasing financial fragility. Eventually a deflating asset bubble was bound to bring a severe financial and economic crisis. The collapse of the stock market bubble in 2000 put strong downward pressure on the US economy, but it was rescued by the rapid emergence of the real estate bubble. When the giant real estate bubble deflated in 2006-07, it caused both the sharp real sector downturn via contracting consumption and investment demand and the financial sector implosion due to the collapse in the value of financial assets following the real estate bubble deflation.

The SSA theory suggests that this crisis is more than just a severe recession combined with a financial panic but is the structural crisis of the neoliberal form of capitalism. It marks the end of the ability of neoliberal capitalism to bring rising profits and stable accumulation over the long-run. While wise policy measures would help, they alone cannot restore a normal growth process. The last three structural crises of capitalism – in the late 19th century, the 1930s, and the 1970s – were resolved only after a major restructuring of capitalism, that is, the construction of a new SSA. The current crisis can be resolved within capitalism only by another period of major restructuring of capitalism. At this time, the powers that be are trying to resuscitate neoliberal capitalism, through the demand for "austerity." However, as the failure of this approach becomes increasingly obvious, we are likely to soon see a shift toward a search for alternatives even on the part of representatives of big business and its various segments. In a crisis such as the present one, even the possibility of moving beyond capitalism cannot be discounted, if ordinary people become actively engaged in the fight over the shape of our economic future.

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Notes

1. The SSA theory claims that such a coherent set of ideas and institutions, referred to as an SSA, promotes several decades of high profits and stable capital accumulation. However, every SSA eventually turns into an obstacle to further economic expansion, leading to an economic crisis. See McDonough et al (2010).

2. See Pollin (2003) for an analysis of the Clinton Administration's economic policies showing their neoliberal character.

3. This does not mean that no difference exists in the US between Democratic and Republican administrations (or between social democratic and liberal or conservative parties in Europe). Left-right differences remain, but in each period these differences, once a party is in office, are constrained by the form of capitalism. The Clinton Administration was able to do some things that were beneficial for its constituencies of working people, women, and minorities, but it did not reverse the main direction of economic policy.

4. This account of Keynesian economics actually refers to the version of it that was widely presented in economics textbooks. Keynes' contributions went beyond what is described here.

5. The term "fiscal policy" refers to government spending and tax policies. This is distinguished from monetary policy, conducted by the Federal Reserve system, which regulates the supply of money and credit and the level of interest rates.

6. *The New York Times*, January 4, 1971. The statement "We are all Keynesians now" is often mistakenly attributed to Nixon. The latter quote actually surfaced in *Time Magazine* on Dec. 31, 1965, attributed to Professor Milton Friedman of the University of Chicago, who responded by complaining the quote had been taken out of context. Friedman was undoubtedly correct, given his unremitting battle against Keynesian ideas during the the 1950s and 1960s.

7. A quotation widely attributed to British Prime Minister Margaret Thatcher had her stating that "There is no society, there are only individuals." This quote was seen by many as capturing the new neoliberal vision of society. However, no one was ever able to find the source of the quote, and it is unknown whether Ms. Thatcher ever used those words which, whether she uttered them or not, do capture the neoliberal view of society.

8. For several decades after World War II, neoclassical economists sought to provide a rigorous proof of the optimal efficiency of a competitive market system. This effort never succeeded without making assumptions that even the economists admitted were highly unrealistic, such as infinite knowledge on the part of market participants (Ackerman, 2002). The claim of optimal income distribution derives from the idea that every market participant receives a revenue that is equal to the marginal product of whatever factor of production is supplied (labor, capital), as well as being equal to the marginal disutility to the owner of that factor of production from supplying it to production – a claim that suggests that the most unpleasant types of labor should have the highest rates of pay. Neoclassical theory, which focuses on economic equilibrium, has had difficulty deriving any definite propositions about the advantages of competitive markets for growth or innovation.

9. This system is sometimes called a "dirty float," based on the neoliberal view that the only "clean"

force that operates in the economy is that of the market while the hand of government is necessarily "dirty."

10. Free movement of labor – that is, free migration – has not been a goal of the new system.

11. After the economic crisis that began in 2008, the behavior of the Fed changed, as did government fiscal policy. The Fed shifted its focus first to preventing a collapse of the financial system and later to encouraging economic expansion as the economy experienced very sluggish recovery with little inflation. Since 2008 fiscal policy has gyrated between Keynesian fiscal stimulus and neoliberal austerity policy.

12. The Reagan Administration also sharply increased military spending. While the rationale was to increase US military strength, Keynesians could argue that the effect, if not the intent, was to stimulate the economy through increasing total demand. As a combination of tax cuts and military spending increases took hold in the early 1980s, the economy did expand at a relatively rapid pace, growing at 4.0% per year from the recession year of 1982 through the next cyclical peak in 1990.

13. One segment of neoliberal economists – the supply side economists such as Arthus Laffer – argued that it was not necessary to cut spending when cutting tax rates, since a reduction in income tax rates would produce such a large increase in private sector economic activity that tax revenues, even at the new lower rates, would increase rather than decrease. Few other economists accepted this claim, which was scoffed at even by most academic neoliberal economists. Yet this was part of the public justification cited for the big tax rate cuts pushed through Congress by the Reagan Administration in 1981. What followed was large and growing budget deficits, as the promised increase in tax revenues failed to materialize.

14. Another key regulated sector was crude petroleum, although the elaborate system created to stabilize the price of crude petroleum prior to the early 1970s, operated by a combination of state and federal governments in cooperation with the major oil companies, was a more informal institution than that for the other regulated sectors.

15. In Europe such industries were often state owned rather than privately owned but state-regulated. Even in the U.S., there was some state ownership in the electric power sector.

16. See Benston (1983) for a thorough presentation of the economic case for financial deregulation.

17. In 1984 this author testified before the House Banking Committee about the dangers of financial deregulation, arguing that it would lead to the return of bank failures and financial panics (Kotz, 1984). To anyone familiar with banking history, this was an obvious conclusion, but the neoliberal economists paid little attention to history.

18. These two laws were the 1980 Depository Institutions Deregulation and Monetary Control Act and the 1982 Garn-St. Germain Depository Institutions Act. These laws started the reversal of state control over interest rates and the services that financial institutions could offer.

19. In 1998 Brooksley Born, then head of the Commodities Futures Trading Commission, called for discussion of regulation of financial derivatives, warning that they were potentially dangerous. However, her call was stymied by Treasury Secretary Robin Rubin and his successor Lawrence Summers. Secretary Summers then supported a ban on any regulation of derivatives that was

inserted into the final financial deregulation bill of the era, the Commodity Futures Modernization Act of 2000 sponsored by Republican Senator Phil Gramm of Texas. The result was rapid growth of unregulated financial derivatives in the 2000s.

20. The Act created the new Occupational Safety and Health Administration, whose mission is to "assure safe and healthful working conditions for working men and women" (available at http://www.dol.gov/compliance/laws/comp-osha.htm).

21. In economic theory, such market failures involve what are called "externalities," that is, costs imposed on third parties such as air and water pollution due to production processes or products; and asymmetric information, whereby one party to a transaction knows the consequences of the transaction while the other does not, as in the case of dangerous products or jobs. Conventional economic theory teaches that unregulated market decisions do not result in an efficient allocation of resources if there are externalities or asymmetric information.

22. In the 1970s Watt founded the anti-environmentalist Western States Legal Foundation. Ann Gorsuch, a former attorney for Mountain Bell and then a conservative member of Congress from Wyoming, saw her role as EPA head to be the easing of environmental regulation and the downsizing of the agency.

23. This decision was leaked to Congress, which held a hearing on the matter, producing headlines about widows and orphans lawsuits as the proposed means of deterring production of unsafe products. The resulting storm forced the FTC to allow the regulatory action to go through in this case (Kotz, 1987, p. 166).

24. The bill was Senate Bill 1167 introduced in 1967 (Martin, 2005, p. 11).

25. In the mid 1990s between 70% and 80% of mergers reported to the Federal Trade Commission were intra-industry mergers, which suggests that it increased monopoly power in markets. By contrast, about 40% of mergers in the 1980s were intra-industry (Federal Trade Commission, 2013). The 1960s merger wave was largely a conglomerate one, with little impact on monopoly power.

26. There have been some important state-owned enterprises in US history, mainly in power generation, transportation, and arms manufacturing.

27. In a widely cited statement, Robert Lucas, a leading neoliberal economist, remarking on the high unemployment rate in the UK in the 1980s, said "You always get more of anything that you subsidize." This meant that generous unemployment benefits in the UK were responsible for the high rate of unemployment at that time. Critics pointed out that in the 1950s and 1960s the UK had very low rates of unemployment, amounting to near full employment, despite its relatively generous unemployment benefits. [Source needed.]

28. On the whole big business was never enthusiastic about the significant role of labor unions and the collective bargaining process. Historical conditions in the late 1940s caused big business to accept the new relation with labor as the best available option at the time.

29. The quote is from a speech to the American Federation of Labor in New York City on September 17, 1952, which is on the website of the Eisenhower Presidential Library and Museum at

http://www.eisenhower.archives.gov/all_about_ike/quotes.html#labor.

30. The decline in the private sector unionization rate from 1953 to 1973 reflected primarily changes in the sectoral composition of employment, as employment in traditionally non-union sectors expanded relative to total employment, and a shift in the geographical location of some industries toward parts of the USA that had proved inhospitable to unions – the Southeast and Southwest.

31. See Uchitelle (2013) in which the noted *New York Times* economics writer recounts the spread of low-wage two-tier union contracts.

32. Baran and Sweezy (1966, chapter 2) is one of many books that describe the co-respective competition of the regulated capitalist era.

33. One study found that the percentage of new CEO hires from outside the company in S&P 500 firms rose from an average of 15.5% in the 1970s to 32.7% in 2000-05 (Murphy and Zabojnik, 2007, 34).

34. The intrusion of market principles also seeped into non-capitalist sectors of the economy, including institutions of higher education. Faculty pay, previously largely independent of discipline, diverged based on earning potential outside the university. It became popular for university heads to seek to measure the "performance" of departments and programs, promising to reward those that scored high while withdrawing funds from those that were judged to be underperforming.

35. This description of financial institution activities in the regulated capitalist era is somewhat oversimplified. Commercial banks, particularly the largest ones, engaged in other activities besides making loans to business. However, the account in the text captures the main role in the domestic economy of each type of financial institution in that period.

36. For an overview of financialization, see Orhangazi (2008) and Epstein (2005)

37. A related analysis explains the rise of neoliberalism as the result of the ascendance of finance, or financial capitalists.

38. The total volume of foreign exchange transactions in the world rose from about $15 billion per day in 1973 to about $80 billion per day in 1980 (Bhaduri, 1998, 152).

39. The process of financialization also involved an expansion of financial services provision by non-financial corporations, which is not captured in figure 2.8 or 2.9.

40. While financial profit as a share of total profit fell steeply from 2003 through 2006, in those years financial profit continue to rise but nonfinancial profit rose faster. In 2007 both financial and non-financial profit declined, followed by a collapse of financial profit in 2008 as the financial crisis struck. However, financial profit rapidly rebounded after 2009 thanks to the government's bailout of the large financial institutions.

41. The narrower measures are government value added, which includes compensation of government employees and depreciation on government owned capital goods; and what is called

government purchases of goods and services, which adds the value of government purchases from the private sector to government value added.

42. The broad measure government expenditure is not actually a part of GDP, since one major component, transfer payments, represents a redistribution of buying power rather than part of the goods and services that make up the GDP. Nevertheless, it is the common practice to compare government expenditure to GDP to estimate the size of government relative to the economy.

43. One business cycle peak year identified by the National Bureau of Economic Research, 1981, is omitted from figure 2.9 (and from other figures that indicate peak years). That peak year is anomalous for the post-World War II period in various ways, including the brevity of the preceding contraction and expansion. The contraction following the 1979 peak (whose monthly date is January 1980) lasted only 6 months until July 1980, and the following expansion lasted only 12 months, until July 1981, after which the economy headed down again for 16 months through November 1982. There are good grounds for regarding the period 1980-82 as one long recessionary period.

44. As the economy expands, private sector output grows rapidly while some types of government spending contract, such as unemployment compensation. In recessions, the reverse happens. This effect can be seen in the cyclical movement of the measures of government spending in figure 2.12.

45. See Wolfson and Kotz (2010) for a related discussion of this point.