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What Is Neoliberalism?

Because the current economic crisis emerged from the particular form of capitalism that has prevailed since about 1980, the first step toward understanding the roots of the crisis is to determine just what this form of capitalism is. There is disagreement about how to characterize the contemporary form of capitalism. In this book post-1980 capitalism is regarded as "free-market" or "neoliberal" capitalism. Some analysts have a different understanding of contemporary capitalism, arguing that the best defining concept is either "globalization" or "financialization." This chapter examines the radically changed form of capitalism that emerged after around 1980 and presents a case that "neoliberalism" captures its main features—and hence is the best starting point for analyzing the roots of the current economic crisis.

The term "neoliberalism" is confusing to those schooled in U.S. politics, since in the United States a "liberal" political stance favors active state intervention in the economy aimed at benefiting the average person. However, the term "liberal" has long had more or less the opposite meaning in every other country, where a liberal political party is one that calls for a free-market economic policy. When a free-market form of capitalism began to emerge in the United States in the late 1970s and early 1980s, at first various names were applied, such as conservative economics, Reaganomics, or simply free-market economics. As this form of capitalism spread around the world, the term "neoliberalism" gradually came into common use to indicate a new form of "liberal" (free-market) ideas, policies, and institutions. In the 2000s the term "neoliberalism" became the most common name for the current form of capitalism and/or the ideas and policies associated with it. While some analysts use the term to refer only to a set of ideas, or to certain policies, we use the concept of neoliberalism, or neoliberal capitalism, more broadly to refer to a particular institutional form of capitalism along with the dominant ideas associated with that form of capitalism.[1]

The concept of neoliberal, or free-market, capitalism does not mean that the state plays no role in the economy. Market relations and market exchange require a state, or state-like institution, to define and protect private property and to enforce the contracts that are an essential feature of market exchange. Every large-scale society requires a state, or a state-like institution, to preserve order. The maintenance of a strong military is fully consistent with the neoliberal view of the proper role of the state. The meaning of "free-market" in this context is that the state role in regulating economic activity is limited, apart from the preceding essential state functions, leaving market relations and market forces as the main regulators of economic activity—but of course operating within a framework provided by the state.[2]

Neoliberalism should not be associated solely with conservative governments. As we will see in Chapter 3, neoliberal restructuring in the United States began under a Democratic Party administration, that of President Jimmy Carter, in the late 1970s. While it intensified under the successive Republican administrations of Ronald Reagan and George H. Bush, there was no reversal after Bill Clinton took office. Similarly, in Western Europe during this period social democratic parties would 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 continuity of neoliberalism despite changes in ruling political parties will be considered in some detail in Chapter 4.

To understand the current historical moment, the best starting point is a close examination of what neoliberal capitalism has been. It emerged from the crisis of the very different regulated capitalism of the post-World War II decades, 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.

Both regulated capitalism and neoliberalism are complex entities with many features. To understand them both, it is best to start with the dominant economic ideas of each period and then proceed to the main institutions of each. The reasons why the big change in the dominant economic ideas took place and why such radical institutional change occurred will be examined in Chapter 3. Here the aim is to establish what it is that needs explanation.

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 U.S. and U.K. is often identified with the British economist John Maynard Keynes.[4] His book *The General Theory of Employment, Interest, 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 a 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 capital goods. 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 unsold 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's followers were reformists, not revolutionaries, and 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 education and infrastructure (transportation, power, communication, sanitary facilities), which 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 correcting market failures (environmental destruction, for example), reducing income inequality, and bringing greater individual economic security.[6] 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. We will refer to this dominant economic orthodoxy as Keynesian, although it included a belief in the need for interventions in the market that went beyond the aim of stabilizing the business cycle, for which Keynesian economics is best known.

The new Keynesian 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 Keynesian 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, "I am now a Keynesian in economics."[7]

However, during the course of the 1970s the Keynesian 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.[8] Individual freedom of choice is seen as the fundamental basis of human welfare, 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.[9] 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 economic theories 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.[10] 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.[11] 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 provided a powerful justification for them. Neoliberal theory asserted that the institutional changes that took place beginning 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 governed the international economy in the period of regulated capitalism. That system originated in a 1944 conference in Bretton Woods, New Hampshire, at which the United States and its allies laid down the 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, calling for the gradual reduction of 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 U.S. dollar, backed by gold at a fixed rate, assumed the role of global trading and reserve currency. The other major powers' currencies were tied to the dollar, creating a system of fixed exchange rates for the major world currencies. IMF approval was required for any change in a major nation's relative currency value.

During 1967–73 the Bretton Woods system broke down in stages, fully collapsing in 1973 when the U.S. government announced that the 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 central banks aimed at influencing the result.[12]

Second, and more importantly, the new system emphasized free movement of goods, services, capital, and money across national boundaries.[13] 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 international 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.

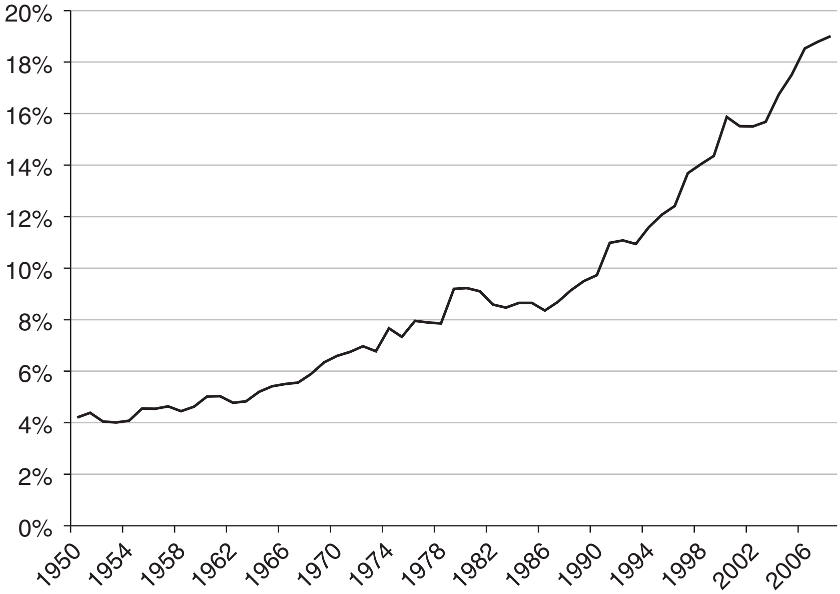

Figure 2.1. World exports as a percentage of world gross domestic product, 1950–2009.

Source: International Monetary Fund, 2013b; Maddison, 2010.

Note: World exports and world gross domestic product are in 2005 U.S. 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 United States a series of changes in the role of the state 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; and 8) enactment of tax cuts for business and wealthy households.

First, in the neoliberal era the former 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 prevent 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 these 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.[14]

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 cut 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, "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.[15] The underlying idea was that smaller government, on both the revenue and spending sides, would lead to faster growth in the private sector.[16]

The second shift in the state role in the economy involved government regulation of key industries. The railroads and the telephone industry had come under effective government regulation by the early twentieth century. A regulatory structure was later extended to electric power, airlines, long-distance trucking, and radio and television broadcasting.[17] 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.[18] While the details of the regulatory structure varied among these sectors, the regulatory agencies generally set prices, regulated business practices, restricted entry into the industry, 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, 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 actually got its start in airlines and trucking during the administration of a Democrat, President Jimmy Carter, in the late 1970s. Cornell economist Alfred Kahn was named by Carter to oversee airline deregulation, while Congress promoted trucking deregulation. As deregulation took hold in 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, determined 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 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.[19] 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.[20]

In 1980, the last year of the Carter administration, the first bank deregulation act was signed into law, followed by another in 1982.[21] 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 institutions 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.[22] 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 virtually 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 at 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 United States 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 first appeared in 1906 with passage of the Pure Food and Drug Act and the Meat Inspection Act. 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.[23]

Environmental protection legislation also has a long history going back to the early twentieth 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 groups 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 might lead companies to engage in practices that harm individuals who have little or no ability to avoid such harm.[24]

In 1978 President Carter took some tentative steps to ease social regulations (Ferguson and Rogers, 1986, 106). However, 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.[25] From fiscal year 1980 to 1984, authorized permanent personnel declined by 21% in the Environmental Protection Agency, by 22% in the Occupational Safety and Health Administration, and by 38% in the Consumer Product Safety Commission.[26] From fiscal year 1980 to 1982 initial complaint inspections by the Occupational Safety and Health Administration fell by 52% and follow-up inspections by 87% (Ferguson and Rogers, 1986, 131, 134).

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 commission'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 a Federal Trade Commission economist temporarily blocked a proposed 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 ten cents per valve. The Federal Trade Commission 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.[27]

Unlike in the case of bank regulation and regulation of natural monopolies, social regulation was not eliminated, due to the strong 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 proposed social regulations. Neoliberal economists made the seemingly reasonable argument that, to be justified, a regulation should yield benefits that exceed its costs. However, 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 major anti-monopoly laws were passed in two waves, the Sherman Anti-Trust Act in 1890, when large corporations were first arising, and the Clayton Anti-Trust Act and Federal Trade Commission Act in 1914, passed in the Progressive Era after big corporations and banks had become well established. There is historical controversy about the political origin of anti-trust, which emerged from a complex political process involving a mass movement of small farmers and small businesses, newly active middle class social reformers, a growing Socialist Party, and representatives of the new big businesses, a political battle that is examined in Chapter 6.

As we shall see in Chapter 6, the Progressive Era initially produced a period of vigorous anti-monopoly enforcement that included suits to break up the new large corporations, two of which (the Standard Oil Trust and the American Tobacco Company) were broken up. However, over the course of the Progressive Era and the years immediately following it, anti-trust enforcement evolved to accept the legitimacy of large corporations, emphasizing regulation of business behavior to prevent certain kinds of monopolistic tactics rather than seeking to restructure the economy through the breakup of large corporations. After World War I there was little anti-trust enforcement until the tide reversed 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 majority of market exchanges in a modern economy are between two business firms as seller and buyer, and the anti-trust laws became a framework for regulation and stabilization of the competitive process aimed at preventing any one company or small group of companies from taking undue advantage of other companies in either buyer-seller or competitive rival relationships.

Toward the end of the period of regulated capitalism, proposals arose in the U.S. Senate to use anti-trust law to undertake a major downsizing

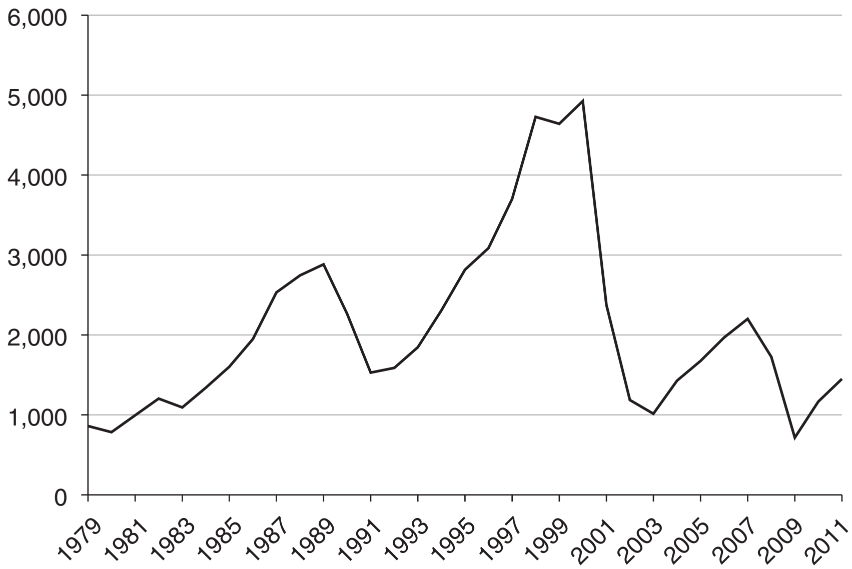

Figure 2.2. Merger transactions reported to the Federal Trade Commission, 1979–2011.

Source: Federal Trade Commission, various years.

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.[28] Although the proposal never became law, just its introduction by a well-respected senator was unnerving to large corporations.

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.[29] As they did for 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. Some economists claimed that domination of many industries by a few giants with very high profits did not indicate monopoly power but rather that the most efficient ones in the industry had grown and displaced their less efficient rivals. According to the new neoliberal theory of competition, where monopoly power exists in the economy it is the product of government coercion through such practices as requiring a license to enter a profession, not the actions of private firms.

The sixth change in the role of government was the privatization of public functions. 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 the regulated capitalist era following World War II, in many West European countries, such as France and the U.K., state-owned enterprises came to compose a large part of industry. Unlike most other developed capitalist countries, the United States never developed a large sector of state-owned enterprises.[30] In Europe privatization meant selling off state-owned enterprises. In developing countries where publicly owned oil companies and other natural resources companies had been formed in the postwar decades, many governments sold them off, usually to investors from the United States 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 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. In 2007 the government, concerned about possible fraud and abuse by federal contractors, decided to investigate by hiring a contractor. The contractor, CACI International, itself had been criticized for its practices, and it charged the government $104 per hour for each person supplied to investigate other contractors.[31]

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 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. By contrast, 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 significant theme was that such programs only harmed the very groups they were intended to help.

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 (AFDC), was abolished and replaced by Temporary Assistance for Needy Families (TANF), which provided support that was temporary and less generous. As Figure 2.3 shows, the benefit level under AFDC/TANF rose to a peak

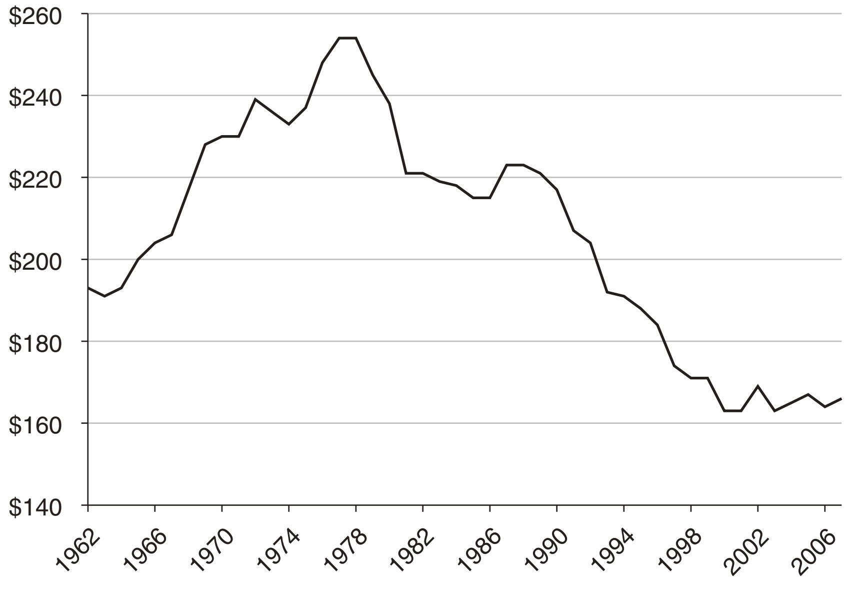

Figure 2.3. Monthly benefit per recipient under aid to families with dependent children or temporary assistance for needy families in 2009 dollars, 1962–2007.

Source: U.S. Department of Health and Human Services, 2013.

in 1977–78, after which it trended downward to a level 35% below its 1978 value by 2007. While Social Security was too popular to eliminate (or privatize), even it suffered marginal cutbacks over the neoliberal era, as the retirement age was raised.

The buying power of the federal minimum wage fell significantly in the neoliberal era. Figure 2.4 shows the federal minimum wage 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 drop 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. A declining real minimum wage affects a much larger share of the labor force than those who earn only 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.

Eighth, and last in our list of changes in the government role, the tax system underwent major revisions in the neoliberal era. In the early

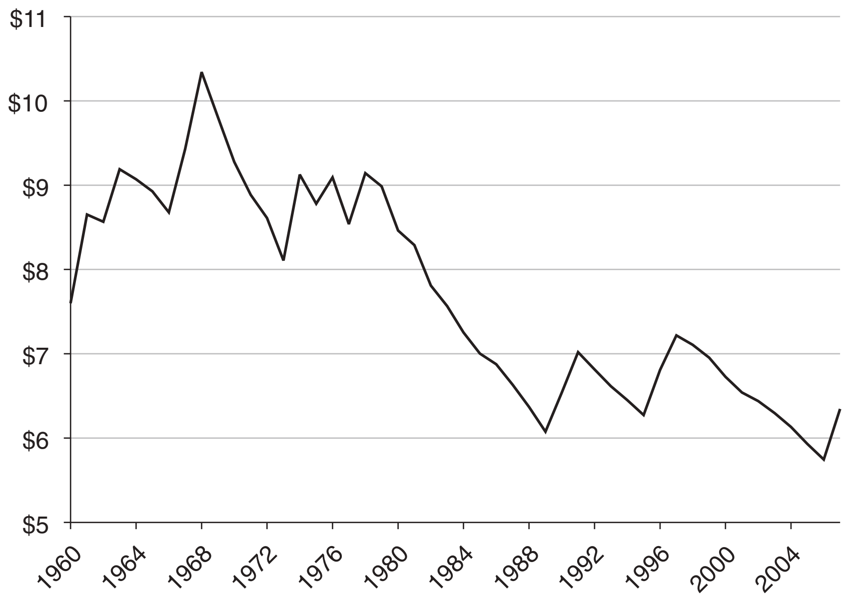

Figure 2.4. Federal hourly minimum wage in 2011 dollars, 1960–2007.
Source: U.S. Department of Labor, Wage and Hour Division, 2009; U.S. Bureau of Labor Statistics, 2013.

Figure 2.5. Top federal marginal tax rates, 1952–2007.
Source: Saez et al., 2012, Table A1.

part of the regulated capitalist era, the U.S. tax system was relatively progressive, despite some regressive elements, with high tax rates on the highest household incomes and a 50% tax rate on corporate profits. As Figure 2.5 shows, in the 1950s the marginal tax rate on the highest incomes was 91%, which was reduced 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, was lowered to 15% in 2003. Overall, in the neoliberal era tax incidence shifted significantly away from business and the rich toward those at the middle of the income distribution.[32]

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 has been the Earned Income Tax Credit, which was expanded in the 1990s. This program has provided significant additional income to low-income working families with children. However, as we shall see in Chapter 3, 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 institutions governing the relation between employers and employees changed radically in the neoliberal era. This change is 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 U.S. history, wages, hours, and working conditions in a major part of the economy 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 various services. Collective bargaining was established mainly among large corporations, although it also played a role in some sectors where small companies predominate, such as in construction.

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.[33] That this was the case is suggested by the following statement by Republican presidential candidate Dwight D. 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.[34]

In the neoliberal era the 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 had grown 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 companies are under pressure to offer wages and working conditions that approximate those won through collective bargaining in order to discourage 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.[35] As Figure 2.6 shows, the rate then stabilized until 1979, as rising public sector unionization compensated for a decline in the private sector. After 1979 the unionization rate fell steadily, to 11.2% in 2012, which was below the rate in 1929 prior to the long expansion of unionization during the Great Depression and World War II. While various factors explain the decline in unionization after 1979, one factor was the marked shift in the rulings of the National Labor Relations Board, whose members are appointed by the president. Unfair labor practice complaints against employers had been sustained 84% of the time in 1979–80 but the rate declined to 51% of cases in 1983–84. While board decisions on contested issues in union representation campaigns favored the union complaint in 54% of the cases in 1979–80, the rate fell to 28% in 1983–84 (Ferguson and Rogers, 1986, 136).

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 regular wage increases, were forced to accept wage freezes, large wage cuts, or two-tier wage structures providing wages for new

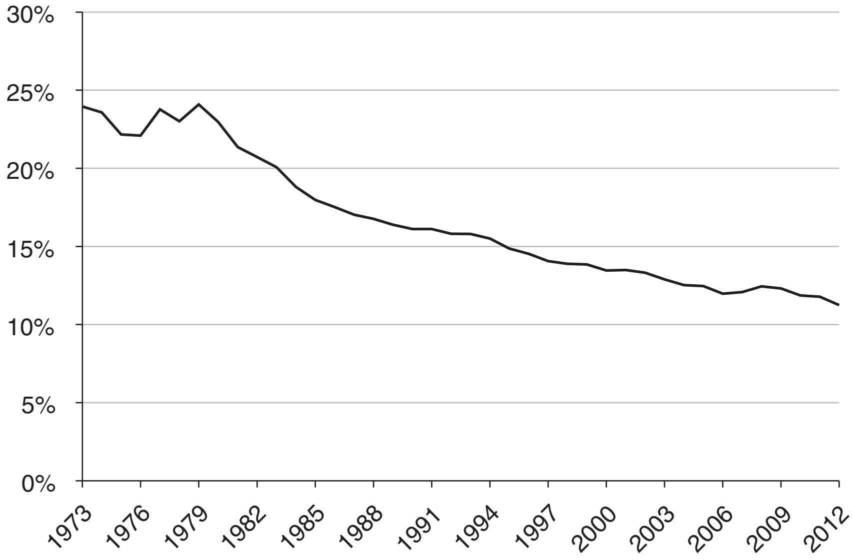

Figure 2.6. Union members as a percentage of all employees, 1973–2012.
Source: Hirsch 2007, data appendix; Hirsch and Macpherson, 2013.

hires as low as half the pay rate for current workers.[36] 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.[37]

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 United States 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). A study of OECD countries found that temporary employment in 2006 was 21% of total employment in Spain and 20% in France, having risen from 15% and 3%, respectively, in 1983–85 (Vosko, 2010, 132).[38] The term "flexible labor markets" has different meanings for employers and workers, in that flexibility means for employers that they are free to define the terms of employment, while for workers it 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 during 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 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.[39]

In the neoliberal era co-respective competition gave way to an unrestrained competition reminiscent of the late nineteenth-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."[40] This contrasts sharply with the life of the large corporate CEO in the regulated capitalist era.[41]

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 strongly 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 others 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.[42] Top corporate officials often moved from one company to another over time. Rather than being a lifetime "company man," many CEOs of large corporations now had a material self-interest in creating 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 relation 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 with subpar profit would be downsized or sold off.[43]

Fourth, and last, a particularly important change in the corporate sector occurred in the relation between financial institutions and nonfinancial corporations. Under regulated capitalism, financial institutions were forced by the regulatory system of that era to basically serve the nonfinancial 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 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. Insurance companies offered various types of conventional insurance. Investment banks floated bond and stock issues.[44]

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. As will be discussed in Chapter 5, 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 nonfinancial sector, or only an indirect relation to it. The financial sector became largely independent of the nonfinancial 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 was often called social democracy, in which state intervention in the economy was greater than in the United States, the welfare programs were more generous, and labor had a stronger role than in the United States.[45] In Japan, a somewhat different form of regulated capitalism developed, with a high degree of state intervention but weaker social welfare programs and little influence for labor. In many developing countries, regulated capitalism took the form of a "developmental state," in which the group controlling the government sought to use state power to promote rapid economic development

The global distribution of neoliberal capitalism has differed from that of postwar regulated capitalism. Neoliberalism emerged first in the United States and United Kingdom. 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. Limited neoliberal restructuring took place 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 enterprises after 1978, it adopted a form of developmental state system with a mixture of market and plan as well as private and state enterprises. 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 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, particularly the IMF, World Bank, and World Trade Organization (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 United States—and the need for every state to adjust to operating within a neoliberal global system dominated by the United States.

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, as was noted in Chapter 1, "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.[46] 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.[47]

Financialization has two limitations as an overall conception of post-1980 capitalism. First, it arrived too late. 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.[48] However, financialization did not develop until a later date by most measures. Figure 2.7 shows the gross value added by financial corporations as a percentage of value added by all corporations in the United States. 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, a steeper upward trend in financial value added as a share of the total took hold, reaching 13.8% in 2006.[49] The financial deregulation laws, an important part of neoliberal restructuring, allowed the financialization process to get underway. This suggests that financialization was to a significant extent a consequence of neoliberal restructuring.

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 Figure 2.7 indicates. On the other hand, financial profit rose spectacularly and its rise came later than for financial sector value added. Figure 2.8 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 2001–03.[50] It was only in the 2000s that financialization fully blossomed, long after the neoliberal era had begun.

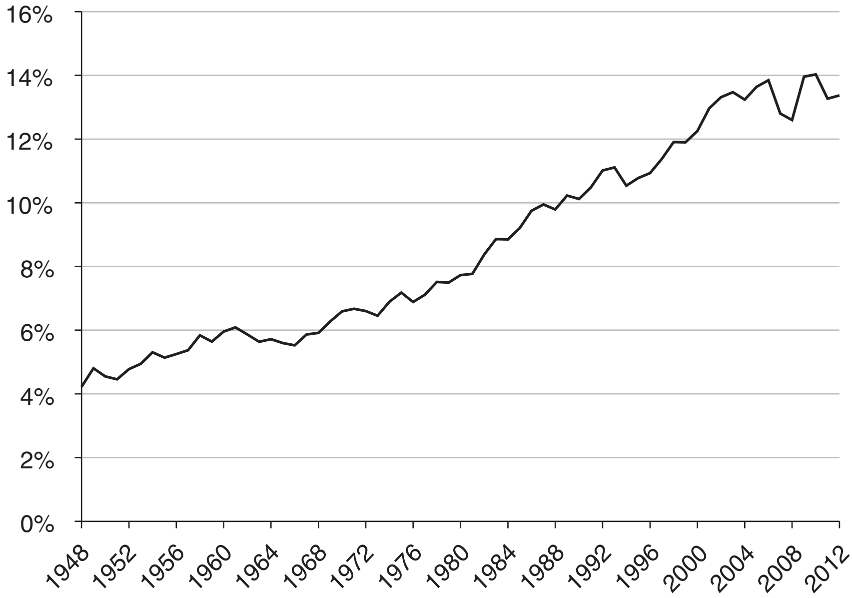

Figure 2.7. Gross value added of financial corporations as a percentage of gross value added of all corporations in the U.S., 1948–2012.
Source: U.S. Bureau of Economic Analysis, 2013, NIPA Table 1.14.

The second limitation of financialization as an overall concept for post-1980 capitalism is that it is not a good basis for explaining most of the institutional changes in the neoliberal era. Financialization does not provide an adequate framework for explaining the many changes in the role of the state in the economy in the neoliberal era discussed above, nor the changes in the institutions of the capital-labor relation. It is not an adequate basis for explaining the big rise in inequality during the neoliberal era.

The evidence supports the view that financialization in recent decades was driven by neoliberal restructuring. Chapter 4 will consider the ways in which the overall neoliberal institutional structure enabled financial institutions to appropriate a rapidly growing share of profit in the economy and the problems that eventually resulted. Thus, despite its undoubted importance, the financialization process does not provide an adequate overall framework for understanding the development of capitalism in this period.[51]

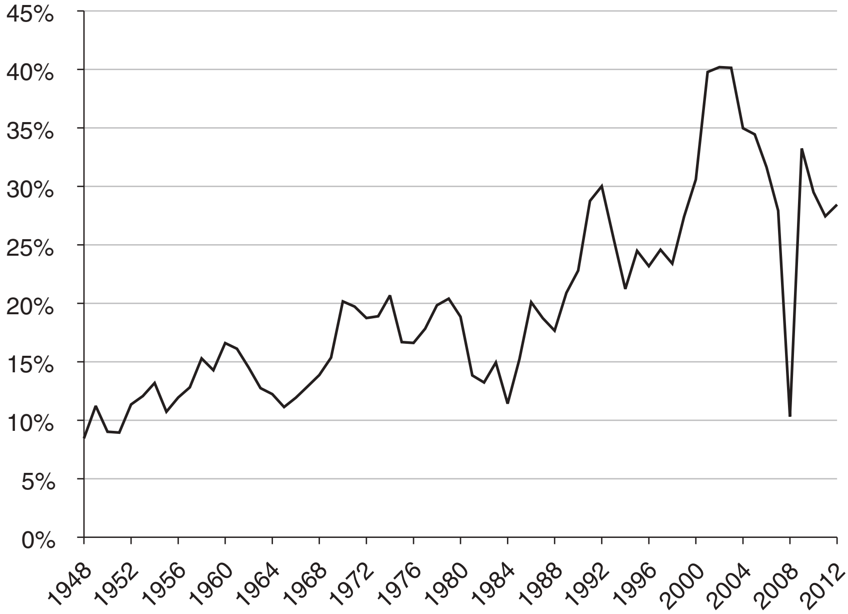

Figure 2.8. Profits of financial corporations as a percentage of the profits of all corporations in the U.S., 1948–2012.
Source: U.S. Bureau of Economic Analysis, 2013, NIPA Table 1.14.

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, including the creation of global production and distribution chains far more developed than those existing in earlier periods. 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, 162–164), which like this book 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. For the United States, Figure 2.9 shows that import penetration began to increase in the late 1960s, rising rapidly in the 1970s. Thus, in contrast to financialization, which emerged after the rise of neoliberalism, the globalization process in this era began before neoliberalism had emerged, although globalization did increase further in the neoliberal era, particularly after 1990.

In Chapter 3, it will be argued that the increasing global economic integration of capitalism in the late 1960s through the 1970s was one

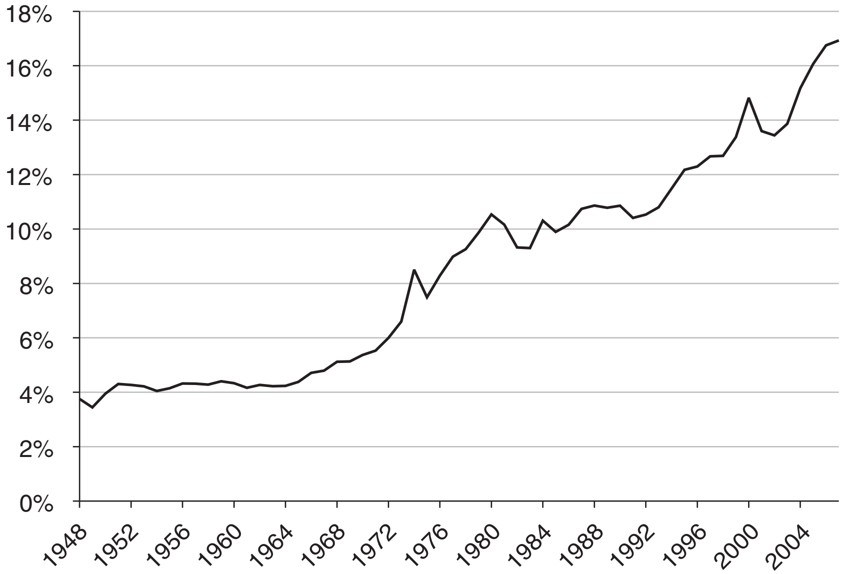

Figure 2.9. U.S. imports as a percentage of gross domestic product, 1948–2007.
Source: U.S. Bureau of Economic Analysis, 2013, International Transactions Table 1, NIPA Table 1.1.5.
Note: Imports include goods and services.

factor that led to the emergence of neoliberalism. However, many of the most important features of capitalism since 1980 cannot be understood or explained based on globalization. Globalization cannot explain the financialization process and the rise of a speculatively oriented financial sector, which have played a major role in contemporary capitalism. It cannot explain the succession of big asset bubbles that has been an important feature of neoliberal capitalism. Globalizalization has been one factor strengthening the bargaining power of capital relative to labor, but it is by no means the only factor. Globalization cannot fully explain the rapidly rising inequality in the contemporary era, which has been quite extreme in the United States compared to some other countries that are even more integrated into the global economy than is the United States, such as Germany. The 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 the neoliberal form of capitalism, but it is not the best defining concept for understanding the development of capitalism in this era.[52]

The best way to resolve the debates over these different lenses for viewing contemporary capitalism is to see how effectively each can focus attention on and explain the most important economic developments in this period. This book seeks to show what can be explained through the lens of neoliberal capitalism, and the reader can judge the adequacy of the resulting analysis.

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 ways to measure the size of the state. Economists distinguish three traditional measures, with the broadest one called government expenditure. That measure includes the value of goods and services produced by public employees, the cost of items purchased from the private sector, and transfer payments such as social security retirement pensions, disability payments, and medical care payments for individual health care.[53] Furthermore, one can examine the federal government only or include state and local governments as well.

Figure 2.10 shows the broadest measure, government expenditure, as a percentage of GDP.[54] Since the business cycle greatly affects this measure, long-run trends can be seen by comparing business cycle peak years,[55] which are indicated by vertical lines in the figure.[56] Total government expenditure rose rapidly relative to GDP from 1948 to 1973 in the regulated capitalist period. During 1979 to 2007, it increased somewhat 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

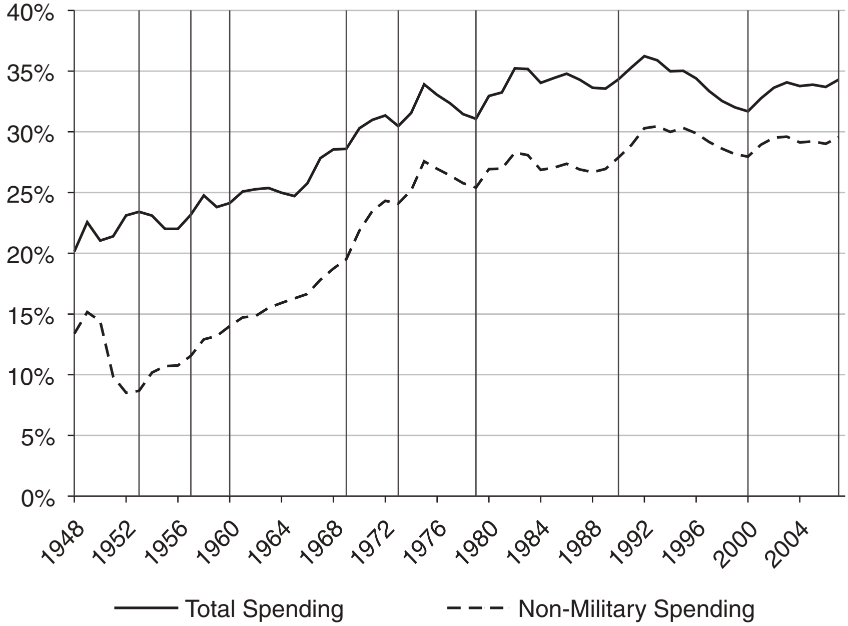

Figure 2.10. Government expenditure as percentage of gross domestic product, 1948–2007.

Sources: U.S. Bureau of Economic Analysis, 2013, NIPA Tables 1.1.5, 3.2, 3.3, 3.9.5.

Note: Vertical lines indicate business cycle peaks.

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 during 1979–2007. The two narrower measures of the size of government, called government value added and government consumption and investment, show rapid growth relative to GDP in 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 United States 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.

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 critics of the concept of neoliberalism argue that the state has remained just as active, or has even become more active, in regulation of the economy, although with a shift in government intervention away from programs that benefit the majority and toward those that benefit big business and the rich. An example is the 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 and use have almost no costs.

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. As was noted above, 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. The defense of intellectual property rights, it is claimed, protects the rights of everyone from individual inventors and writers to corporations, although in practice it often benefits large corporations at the expense of individual knowledge producers. Private property cannot exist without state protection, if society is to avoid incessant conflict over control of property among its members. The extension of protection of intellectual property rights by the U.S. government, within the United States and outside its borders, falls well within the neoliberal concept of the proper role of the state. Once 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 United States 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 during

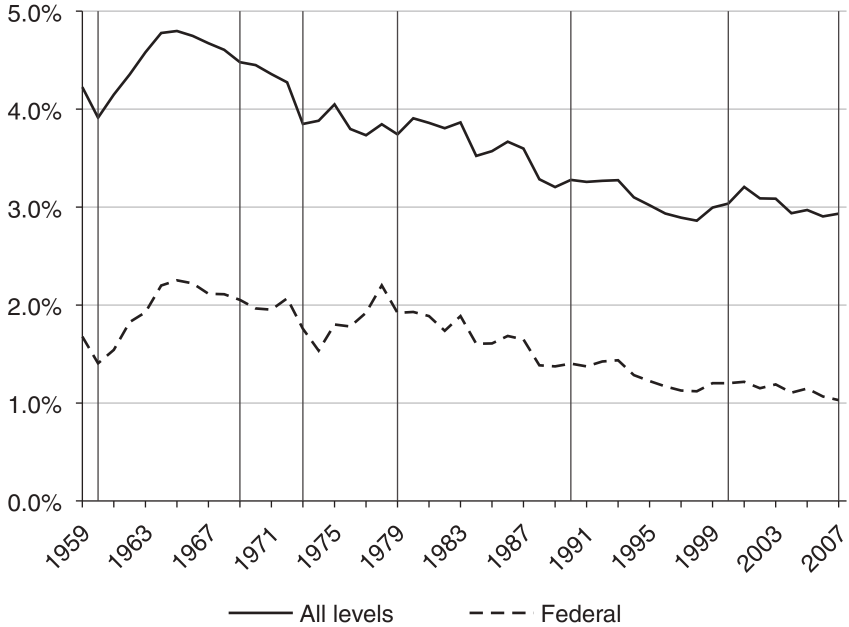

Figure 2.11. Government infrastructure spending as a percentage of gross domestic product, 1959–2007.

Source: U.S. Bureau of Economic Analysis, 2013, NIPA Tables 3.17, 1.1.5.

Notes: Vertical lines indicate business cycle peaks. Infrastructure spending includes investment and current consumption in the economic affairs category.

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 2.11 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 through 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. Infrastructure spending by all levels of government 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 large 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 subsidy programs, whose beneficiaries reside in many congressional districts. But it is difficult to deny that the U.S. state significantly reduced its regulation of and intervention in the economy during this period, with the exception of those government roles approved by the neoliberal view as within the proper role of the state, which center around protecting private property, maintaining order, and providing a strong military. On this ground, it is reasonable to view the current form of capitalism as a liberal one, by comparison to the previous regulated form of capitalism.

Although neoliberal capitalism has been presented so far as a list of ideas and institutions, it does have a unifying principle, as was suggested in the brief definition given in Chapter 1. Table 2.1 summarizes the main ideas and institutions of neoliberal capitalism in the United States. 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 professional associations. This explains why the term "regulated capitalism" is more accurate than "state-regulated capitalism"—the state is not the only institution partially taking the place of market relations and market forces.

Table 2.1 The Ideas and Institutions of Neoliberal Capitalism

1.	Dominance of neoliberal ideas and theories
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 nonfinancial sector

Every one of the institutional changes in Table 2.1 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 government regulation, is therefore able to follow market incentives which lead it away from traditional roles and practices. Neoliberal ideas, with their glorification of unfettered market relations and their denial of any need to intervene 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.

Neoliberal Institutions and the Capital-Labor Class Relation

In Chapter 1 it was noted that every institutional form of capitalism, or social structure of accumulation, must stabilize the relation between capital and labor, which is necessary if the social structure of accumulation is to promote profit-making and stable economic expansion.[57] 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.[58] 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 labor by capital. The thorough domination of labor by capital 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. The latter developments will be documented in Chapter 4.

This raises the following question: What is the connection between the unifying 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 Table 2.1 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.

Whether obvious or not, most, if not all, of the institutions in Table 2.1 directly or indirectly reinforce the thorough domination of capital over labor. Globalization empowers capital to move wherever labor is cheapest. Renunciation of aggregate demand management aimed at a low unemployment rate weakens labor's bargaining power, as do 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 makes it difficult for them to afford union wages and puts pressure on them to get rid of the union in their company.

Some analysts interpret the current form of capitalism as centered around thorough capitalist domination of labor while others view it as characterized by 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, has promoted the increasing power of capital over labor.

What explains this curious connection between expanded market relations and increased power of capital over labor? The best way to explore that question is to examine how neoliberal capitalism emerged in the late 1970s and early 1980s. In doing so, we can uncover the connection between these two aspects of neoliberal capitalism, while also learning some lessons about the nature of dominant ideas and their role in economic and social change. That is the subject of the following chapter.

3

The Rise of Neoliberal Capitalism

The rise of neoliberal capitalism and its associated ideas came as a surprise to most analysts. By the 1960s, after some two decades of regulated capitalism in the United States, it was widely believed that an expanded state role, unionization of the workplace, the building of a welfare state, and the other changes that had emerged in the 1930s and 1940s represented real progress for the economy and society. If capitalism had been harsh in its early days, that was now ancient history. The economic benefits of capitalism, no longer flowing only to a few plutocrats, were now widely shared among most, if not all, of the population. As was noted above, the very term "capitalism" had largely disappeared from public discourse, replaced by "mixed economy."

Keynesian ideas seemed to be permanently ensconced in academic economics as well as in the policy realm. The old free-market economic theories were widely regarded as outmoded, relegated to the proverbial dustbin of history. At the leading U.S. university economics departments other than that of the University of Chicago, the old free-market economic theories were considered relevant only in courses in the history of economic thought.[1] "Modern" economics was assumed to be the dominant Keynesian theory.[2]

Neoliberalism first arose in the realm of ideas, starting in the late 1960s and steadily gathering strength over the course of the 1970s.[3] The sudden emergence and rapid spread of new versions of free-market economic theory were startling and inexplicable to many leading economists. By the end of the 1970s, the new free-market theories, increasingly advocated by younger academic economists, were pushing the established Keynesian orthodoxy aside.

As was noted in the preceding chapter, neoliberal institutional transformation, which many associate with the Reagan administration, began before Reagan took office in January 1981. During 1978–80 airline and trucking deregulation were underway, the first major bank deregulation act was passed, and the Federal Reserve drove interest rates up rapidly despite the very high unemployment rate that resulted. The average real AFDC benefit hit a peak in 1978, after which it began its long decline, as did the real value of the federal minimum wage (see Figures 2.3 and 2.4). After Ronald Reagan assumed the presidency in 1981, neoliberal restructuring accelerated. A defining event took place when President Reagan broke a national strike of air traffic controllers in August 1981, which sent a signal to business that direct action to roll back unions, long considered taboo, was now legitimate.[4]

Why did this major, unexpected transformation take place? Why did an old form of capitalism, albeit with some new features, suddenly emerge in the late 1970s to early 1980s? The underlying cause lay in a shift on the part of big business.[5] Regulated capitalism had been the product of a coalition that emerged in the 1940s between two key groups in American society, big business and organized labor.[6] The main opposition to regulated capitalism came from smaller businesses, which were too weak to prevent the consolidation of regulated capitalism.[7] Over the course of the 1970s, big business shifted from support for regulated capitalism to endorsement of neoliberal transformation. In a new alliance with small business, this created an overwhelmingly powerful force that was able to rapidly install the neoliberal form of capitalism. Organized labor, deserted by its erstwhile coalition partner, was left as the main opposition, and it was in no position to prevent the transformation on its own.

This interpretation of the rise of neoliberal capitalism will be presented in several stages in this chapter. First, we consider three alternative explanations for the rise of neoliberal capitalism, finding none of them to be persuasive. Second, we provide evidence that the introduction of key features of regulated capitalism received support from a major part of big business in the 1940s, and we offer an explanation for that position on the part of big business. An understanding of the role of big business in the formation of regulated capitalism is a necessary foundation for explaining why big business later shifted to support for neoliberal transformation in the 1970s. Third, the historical context for the rise of neoliberal capitalism is briefly examined: the economic crisis of the 1970s. Fourth, we present evidence that big business did indeed shift its support to neoliberalism in the 1970s. Fifth—and this is the heart of the case—we offer an explanation of why this shift on the part of big business occurred. Sixth, some lessons are drawn about the role of ideas and ideology in economic continuity and economic change.

Alternative Explanations of the Rise of Neoliberalism

Neoliberal theory itself suggests a simple explanation of neoliberalism's rise to dominance. That is the view that state intervention in the economy not only restricts individual freedom but also undermines economic performance. Thus, free-market ideas and institutions reemerged once people realized the economic damage done by several decades of statism.

The problem with this explanation is that, for twenty-five years from the late 1940s to the early 1970s, the U.S. economy had the fastest, and most widely shared, economic growth of any long period in U.S. history. A study by Maddison (1995, 60, Table 3.1) found that period showed by far the fastest growth in GDP and in GDP per person of any period since 1820 for every region of the world.[8] In Chapter 4 we present evidence about economic performance during that period, which was sufficiently impressive to inspire the term "golden age of capitalism" to describe the quarter-century following World War II.[9]

Thus, it appeared that the "statism" of the postwar decades was working rather well in promoting economic progress. Indeed, that was a key reason for the continuing widespread acceptance of regulated capitalism and the inability of its opponents to derail it prior to the 1970s. However, eventually serious economic problems did emerge. One can trace their roots to the second half of the 1960s, although the problems did not fully emerge until after 1973. Following that year the U.S. economy, and the global capitalist economy, entered a period of long-term economic crisis. Although advocates of neoliberalism could point to serious economic problems after 1973, the argument that regulated capitalism could not bring economic progress is not supported by the historical evidence.

A second explanation of the rise of neoliberalism is that the financial sector of big business, after decades of subordination under regulated capitalism, was able to emerge as the dominant force in the 1970s (Arrighi, 1994; Dumenil and Levy, 2004). There are several variants of this view, but the idea common to the different variants is that regulated capitalism had been the creation of an alliance involving some subset of the following groups: corporate managers, industrial (or nonfinancial) capitalists, and labor. Left out of power were the financial capitalists, under a regime that closely regulated financial institutions and restricted their activities. Then, in the conditions of the economic crisis of the 1970s, financial capitalists were able to assert their dominance over the other groups, and the new version of capitalism they built is what we know as neoliberalism.[10] According to this interpretation, the neoliberal era can be understood as a return to a kind of finance capitalism somewhat akin to the era of J. P. Morgan before World War I.

If this explanation of the rise of neoliberalism is to have any explanatory power, then one should be able to identify a shift in dominance from one section of business to another in the 1970s. It assumes that financial capitalists displaced from power industrial capitalists, corporate managers, or both. Presumably the ousted groups would have contested their demise, but no one has found evidence of resistance to the rise of neoliberalism from either industrial capitalists or corporate managers, although labor did resist. Indeed, high-level corporate managers became far richer under neoliberal capitalism than they had previously been, as we will document in Chapter 4. We will present evidence below that, contrary to the financial dominance explanation, both financial and nonfinancial big capitalists first supported regulated capitalism, then in the 1970s both shifted to support for neoliberal transformation.

A third explanation points to technological factors. Howard and King (2008) present such an explanation based on the traditional Marxist theory of social change, although versions of the technological change explanation have been offered by mainstream analysts as well. Howard and King's understanding of what neoliberalism is has significant similarities to the interpretation presented in this book, including regarding globalization as an aspect of neoliberalism (Howard and King, 2008, 5).

The traditional version of the Marxist theory of social change asserts that, over very long periods of time, changes in technology (referred to as the development of the forces of production) lead to accommodating changes in social relations, economic and political institutions, and the dominant ideas.[11] Howard and King apply this theory to explain the rise of neoliberalism in the 1970s. They explicitly reject the view that attempts by capitalists to raise the rate of profit led to neoliberal restructuring. They argue that new technologies, particularly in information processing and communication, undermined the advantages of centralized production and decision-making while lowering the cost of decentralized production systems coordinated by market relations (Howard and King, 2008, chap. 6). Outsourcing was encouraged by such new technologies. The resulting expansion of market relations, which foster individual self-interested behavior, weakened the trade unions. Neoliberalism is seen as an institutional transformation that arose because it was a consequence of new technologies as well as fostering the effective utilization of the new technologies.

The traditional Marxist theory of social change can be used effectively to account for some major historical developments, such as the rise of capitalism in Europe many centuries ago, as well as some institutional changes during the capitalist era such as the rise of large corporations in the late nineteenth century. However, an explanation of the rise of neoliberalism as a consequence of technological developments is not persuasive. There are at least three weaknesses in this explanation.

One weakness is conceptual. The claim that the new technologies in information-processing and communication tended to move society toward decentralization in the form of expansion of market relations is not persuasive. Those technologies make centralized decision-making more effective by reducing the cost of gathering a lot of information in one place. One would think that these new technologies would make a more centralized form of economy more efficient as well as more flexible in response to unforeseen developments. Indeed, economic concentration has proceeded rapidly in some sectors of the economy in the neoliberal era, such as finance, telecommunications, restaurants, and retail trade.

Second, the timing of the key technological developments does not appear to fit this explanation. The most important of these new technologies—the personal computer, the internet, and cellular telephones—arose or became important only after the 1970s. This timing is not consistent with the theory of social change which holds that first new technologies develop, followed by resistance to their effective use from existing institutions, which eventually leads to institutional transformation.

Third, the idea that initial technological advance leads to institutional change which in turn frees the forces of production to develop rapidly does not appear to be supported by the evidence about economic performance in the neoliberal era. The next chapter will take a close look at economic performance after 1980. While important new technologies have indeed been introduced in the neoliberal era, those changes did not lead to accelerated economic advance for the economy as a whole if judged by the usual measures. It will be shown that the most commonly used measures of economic progress, such as the GDP growth rate and labor productivity growth rate, show inferior performance compared to that of the regulated capitalist era. As we will see in Chapter 4, GDP growth in the neoliberal era in United States even showed no discernible improvement over that of the crisis phase of regulated capitalism in the 1970s.

While the idea that technological change can help explain social, political, and ideological change may be applicable in some historical contexts, it does not appear to offer explanatory assistance in this case. Neoliberal capitalism has displayed some strengths in economic performance, such as price stability and a series of relatively long economic expansions punctuated, prior to 2008, by relatively brief and mild recessions. However, there is not a persuasive case that it has promoted rapid economic progress by the usual measures. Indeed, in our view neoliberalism has been a step backward with regard to economic progress as well as in other respects, and a rather big step at that. While steps backward do occur in history, such developments are not typical and, when they do occur, they present a puzzle that requires an explanation other than technological progressivity.[12]

Big Business and the Rise of Regulated Capitalism

The ideas and institutions that made up post-World War II regulated capitalism in the United States did not all arise simultaneously.[13] Table 3.1 lists the dominant ideas and the main institutions of regulated capitalism in the United States, in a manner parallel to the list for neoliberal capitalism in Table 2.1 of the previous chapter (the institutions listed in Table 3.1 were explained in Chapter 2).[14] A few of the institutions in Table 3.1 arose even before the 1930s but later came to make up part of the postwar system: regulation of basic industries, promotion of corporate CEOs from within, and governance of relations within corporations by bureaucratic principles. Several emerged, or were revived, during the

Table 3.1 The Ideas and Institutions of Regulated Capitalism

1. Dominance of Keynesian ideas and theories
2. The Global Economy: The Bretton Woods System, with fixed exchange rates, a gold-backed U.S. dollar as the world currency, and a moderately open world economy although with tariffs and some obstacles to free capital movement
3. The Role of Government in the Economy
   a) Keynesian fiscal and monetary policies aimed at a low unemployment rate and an acceptable inflation rate
   b) Government regulation of basic industries
   c) Government regulation of the financial sector
   d) Social regulation: environmental, occupational safety and health, and consumer product safety
   e) Strong anti-trust enforcement
   f) A high level of provision of public goods and services including infrastructure and education
   g) Welfare state
   h) Progressive income tax
4. The Capital-Labor Relation
   a) A major role for collective bargaining between companies and unions
   b) Large proportion of stable, long-term jobs
5. The Corporate Sector
   a) Co-respective competition
   b) Corporate CEOs promoted from within the corporation
   c) Bureaucratic principles govern relations within corporations
   d) Financial institutions mainly provide financing for nonfinancial businesses and households

New Deal in the 1930s and remained in place after World War II: financial regulation, strong enforcement of anti-trust legislation, a welfare state, and a progressive income tax system.

However, the institutions of regulated capitalism that had emerged by the 1930s fell short of constituting a new social structure of accumulation that could promote high profits and stable economic expansion. Through the end of the 1930s, sharp conflict between labor and business continued to create instability and uncertainty, and the economy failed to fully recover from the depression. U.S. entry into World War II at the end of 1941 introduced a special period in which the capital-labor conflict was temporarily suspended by both sides to support the war effort. It was not until shortly after World War II that a new, viable social structure of accumulation was constructed. The key new institutions that emerged in the 1940s were the Bretton Woods system, the rise to dominance of Keynesian ideas, government macroeconomic policies aimed at a low unemployment rate as well as avoiding high inflation, and, of particular importance, a stable system of collective bargaining between big corporations and unions.[15]

The key role of big business in the construction of regulated capitalism unfolded toward the end of, and shortly after, World War II. The Bretton Woods system, which was explained in Chapter 2, emerged gradually starting in 1944, and the International Monetary Fund started to operate in 1946.[16] Block (1977) provides an insightful analysis of the complex struggles among key groups in the creation of the Bretton Woods system, making a convincing case that the most powerful players were large U.S. transnational corporations and big banks. Block refers to that group as the "multilateralists," who sought a relatively open world economy and stable currency values. While the banks were skeptical of the proposed IMF and preferred a return to the gold standard, they went along as long as the IMF rules excluded the more radical restrictions on capital flows favored by some U.S. Treasury Department officials.

The Treasury Department was the power base of a group dubbed the "national planners" by Block. Led by the famous Harry Dexter White, the national planners found support among the new industrial unions in the Congress of Industrial Organizations (CIO). White proposed a plan that would have insulated nation-states that pursued pro-labor economic reforms from pressures stemming from international currency markets. White's original draft of the Bretton Woods agreement was extensively rewritten by the multilateralists. A third group, made up of smaller domestically oriented business, supported the position Block characterizes as "isolationist," which opposed the U.S. taking the lead in creating a new global monetary system, but it was soundly defeated by the big corporations and banks.[17]

The most important domestic institution that arose after World War II was collective bargaining between big business and trade unions.

Closely related to that institution was the acceptance of Keynesian macropolicy to maintain a low unemployment rate and guard against another depression. Keynesian macropolicy would enable large corporations to agree to wage increases in a three-year collective bargaining contract without fearing that a depression would leave the company unable to afford to pay rising wages. The intellectual justification for Keynesian macropolicy was provided by the rise to dominance of Keynesian economic ideas and theories.

A central claim of the analysis in this book is that a decisive part of big business in the U.S. came to support collective bargaining, Keynesian macropolicy, Keynesian economic ideas, and a welfare state during the mid to late 1940s. During the 1930s only a few big business leaders supported the New Deal, particularly its embrace of trade union rights. In 1935 the relatively conciliatory Business Council, the leading big business policy organization in that period, had joined with the National Association of Manufacturers and the U.S. Chamber of Commerce in a futile opposition to the proposed National Labor Relations Act, which guaranteed the right to collective bargaining. The Business Council continued to resist trade unions after the United States entered World War II (McQuaid, 1982, 47–48, 96). However, as the war ground toward its conclusion and big business leaders pondered the experience of the past decade of depression, intense labor strife, and wartime mobilization, a growing part of big business shifted its position.

The Committee for Economic Development (CED) was the most important channel through which big business came to express its support for collective bargaining, Keynesian macropolicy, and the welfare state, as well as seeking to influence the specific features of those institutions. The CED, which grew out of the Business Council, was formed in September 1942 "as a private, non-profit, non-political association . . . composed of some of the nation's leading businessmen."[18] The CED's two official objectives were to help with postwar reconversion and to "determine . . . those economic policies that would encourage both the attainment and maintenance of high production and employment" (CED, 1948, 57). At first a small number of big corporations were represented on the CED board of trustees, totaling thirteen in 1944, shown in Table 3.2. By 1948 the number had grown to forty-three, as shown in Table 3.3. For those two years, the list of big business officials who served on the Board of Trustees or the

Research Committee of the CED is almost a who's who of U.S. big business in that period, although with some omissions. The lists for 1944 and 1948 included the top officials of major financial and nonfinancial companies, such as J. P. Morgan, Bankers Trust Company (long connected with the Morgan financial group), Goldman Sachs, Lehman Brothers, General Electric, Union Pacific Railroad, Ford Motor Company, Eastman Kodak, General Foods, Goodrich Tire, Federated Department Stores, New York Life Insurance, and Shell Oil. By 1964 the list had expanded to ninety-one big corporate members, including such titans as AT&T, Bank of America, First National City Bank (predecessor of Citibank), General Motors, U.S. Steel Corporation, and Standard Oil of New Jersey (which later became Exxon).[19]

What did the CED advocate? In 1944, two years after its founding, the CED issued a report, *The Economics of a Free Society,* authored by one of its founders, William Benton.[20] This report advocated acceptance of three key institutions of what is called here regulated capitalism: collective bargaining with trade unions, Keynesian policies to regulate the business cycle, and government provision of social welfare programs.

Table 3.2. Big Business Representatives Affiliated with the Committee for Economic Development, 1944

Champion Paper
Coca-Cola
Eastman Kodak
Fidelity & Casualty Co
General Foods
Goldman, Sachs & Co
Hormel Foods
J.P. Morgan & Co.
Quaker Oats
R.H. Macy and Company
Scott Paper
Studebaker
Union Pacific Railroad Co.

Source: CED, 1944.
Note: Includes representation on the CED Board of Trustees or Research Committee.

For example, it argued, “To compensate for the weakness of their individual bargaining position, wage earners need the right to combine into organizations for collective bargaining” (Benton, 1944, 6). It advocated active government policy aimed at “maintaining the flow of buying power needed to sustain high levels of employment” and even

Table 3.3. Big Business Representatives Affiliated with the Committee for Economic Development, 1948

Allegheny Ludlum Steel	Goldman, Sachs & Co
Anderson, Clayton and Co	Hormel Foods
Arkansas Power & Light Company	International Harvester
B.F. Goodrich	J.P. Stevens
Bankers Trust Company	Lehman Brothers
Bausch and Lomb Optical	Libbey-Owens-Ford Glass
Bristol-Myers	National Broadcasting Co
Champion Paper	New York Life Insurance Co
Chicago, Indianapolis & Louisville Railway	Northern Pacific Railway Company
Cincinnati Street Railway Company	Northwest Bancorporation
Cleveland Electric Illuminating Company	Owens-Illinois Glass
Coca-Cola	Pennsylvania Railroad Company
Colgate-Palmolive	Philco
Continental Insurance Co	Procter & Gamble
Corning Glass Works	Quaker Oats
Crown Zellerbach	R.H. Macy
Eastman Kodak	Scott Paper
Federated Department Stores	Shell Union Oil Co
Ford Motor	Sinclair Coal Company
General Electric	Texas Power and Light Company
General Foods	United Air Lines
General Mills	

Source: CED, 1948.
Note: Big corporate trustees of CED. In 1948 all corporate members of the Research and Policy Committee were also on the Board of Trustees.

endorsed public jobs for the unemployed when necessary (7). It not only endorsed social security retirement pensions and unemployment compensation but argued, "Such individual protection . . . should be extended as rapidly as possible" (7).

In 1944 the number of big corporations represented on the CED board was still relatively small, at thirteen, and it may be that in 1944 such ideas had not yet gained widespread acceptance among big business. However, by 1948 the CED's trustees included forty-three big business representatives. By 1964 CED's trustees even included corporations that had been staunchly anti-union in the mid-1930s, such as General Motors.[21]

In 1947 the CED's Research and Policy Committee, consisting largely of corporate CEOs from its Board of Trustees, issued a "Statement on National Policy" titled *Collective Bargaining: How to Make It More Effective*.[22] The statement accepted collective bargaining with unions and discussed ways to make it less disruptive to business. It warned that "industrial strife" jeopardized the U.S. economy while threatening "international peace and prosperity" given the leading role of the United States in the world in 1947 (CED, 1947, 7). It insisted that the CED Research and Policy Committee "believes in true collective bargaining" and warned against returning to the past state of "civil war" between labor and business (7–8). It called for "mutual trust and understanding" between companies and unions, endorsed the use of grievance procedures, and called for amending the Wagner Act to require unions as well as employers to engage in collective bargaining (9, 12–13).

Seventeen years later, in 1964, another report by the CED's Research and Policy Committee, titled *Union Powers and Union Functions: Toward a Better Balance,* stated, "Workers should be able to form unions of sufficient power to represent them effectively in negotiations with employers that affect terms and conditions of their employment" (CED, 1964, 9), although it warned against unions accumulating too much power.[23] After briefly reviewing the history of the labor upsurge starting in the mid-1930s and the series of labor laws passed by Congress since 1932, the report concluded with the following lines:

> We believe that the national labor legislation adopted in the past generation, taken as a whole, has been constructive. To return to the situation which existed before 1932, or before 1947, or before 1959, would be highly undesirable. (12)[24]

In 1948 the CED issued a statement on government policy titled *Monetary and Fiscal Policy for Greater Stability*. The statement spelled out in detail its support for the Keynesian view of the proper role of the federal government in stabilizing the economy and promoting high employment through monetary and fiscal policy. The statement observed that "monetary and fiscal policies are essential functions of government . . . [that] encourage or discourage financial expansion" (CED, 1948, 57).[25]

Why would the leading big business policy advocacy organization of that era offer support for trade unions, collective bargaining, Keynesian macropolicies, and the welfare state? There are several reasons for this, rooted in the conditions of the 1940s in the United States and the world.[26] The first stemmed from the evolution of labor-management relations in the United States after the early 1930s. Before the 1930s, with few exceptions big business in the United States had strenuously resisted recognizing trade unions, much more so than big business in most other developed capitalist countries. In the depth of the Great Depression, a major labor upsurge began in the United States, as workers in many industries launched campaigns for union recognition, including in autos, steel, tires, electrical machinery, trucking, and longshoring. Fierce and often violent battles resulted, with labor gaining strength over time, compelling many giant corporations to recognize and bargain with unions.[27] When the United States entered World War II, the labor leadership accepted a truce, agreeing to a no-strike pledge for the duration of the war. During the war, with full employment bolstering labor's bargaining power and the success of the war effort dependent on labor's cooperation, the unions made several further gains, including dues checkoff, grievance procedures, seniority as the basis for promotion and as protection against layoff, and further expansion of union membership.

After the war's end, a nationwide strike wave broke out in 1946 in several major industries, after the lifting of wartime wage-price controls and the end of the no-strike pledge. However, as the Cold War got underway, U.S. politics swung to the right. Many of the most effective union leaders were Communists, Socialists, or independent radicals, and the union movement was portrayed as "subversive." The 1946 congressional election brought big gains for Republican opponents of the labor movement. Big business now allied with smaller business to push for new restrictive labor legislation, leading to the passage of the Taft-Hartley Act over President Truman's veto in 1947, an act which outlawed secondary boycotts and other effective union tactics. As the Cold War took root, and with it fear of radicals, in 1948 the more moderate leaders of the new industrial union federation, the CIO, turned against the left-wing union leaders in their midst who had played a central role in most of the major labor confrontations with big corporations since the 1930s. This culminated in the expulsion of several major national unions led by Communists and other leftists from the CIO in 1949–50. Many left-wing union activists were fired from their jobs by management.

It was in this context that a critical mass of corporate leaders concluded the time was right to make a deal with a labor leadership that was now more moderate and hemmed in by Taft-Hartley. Big business had tried to defeat the labor upsurge for some fifteen years, but they had failed to do so. They apparently decided that accepting unions and engaging in collective bargaining over wages and working conditions was their best option available. The newly tamed union leadership, shorn of many of its most militant officials and battered by the shift in public sentiment which had previously been favorable to unions, agreed to the deal, which involved giving up the most militant union tactics, accepting many management rights, and promising to enforce collective bargaining contracts on their often unruly members once they were signed. Had the elimination of unions been a possibility, it is likely that few, if any, of the big corporations would have signed onto this deal, but the option of continuing the effort to drive out unions was not a realistic one.

Ford Motor Company provides a good example of a company that vigorously fought unionization in the 1930s before shifting its position in the late 1940s. In a famous incident on May 26, 1937, United Auto Workers Union leader Walter Reuther was severely beaten by security guards in the employ of Ford Motor Company while he was leafletting near a Ford plant gate. In a remarkable turnaround, in 1946 Henry Ford II, recently ascended to head of the company, stated that the corporation had "no desire . . . to turn back the clock. . . . We do not want to destroy the unions" (McQuaid, 1982, 143).

A revealing passage in the 1964 CED Research and Policy Committee statement on unions indicated an advantage, from the companies' viewpoint, of accepting a stable relation with trade unions. The statement expressed some discontent with the political activism of unions, but noted the following:

> However, the system [of union activism in politics] also has some advantages. It probably tends to focus attention of American labor on collective bargaining rather than on the effort to invoke the power of government to change conditions best left to private decisionmaking. . . . A major accomplishment of American labor policy is the degree to which it has kept government out of the determination of specific employment conditions. (CED, 1964, 13–14)

This expressed a preference for the politically moderate politics that emerged from union political activism in the United States. By contrast, in most European countries in that period, labor played a more radical political role, supporting Socialist and Communist parties that pressed for greater state intervention in business while proclaiming an ultimate objective of replacing capitalism with socialism.

A second reason for big business to support key institutions of regulated capitalism was fear that the Great Depression would return. Big business had good reason to endorse Keynesian macropolicy and Keynesian ideas after World War II. Everyone knew that the huge spending and mobilization of World War II had abruptly ended the Great Depression. In 1939, a decade after the start of the Great Depression, the unemployment rate, while having fallen from its high of 25% in 1933, was still at 17.2%, and business fixed investment was only 58% of its 1929 level. The economic effect of entry into the war quickly ended the depression, driving the unemployment rate down to 1.2% in 1944. There was widespread fear, including among big companies, that once the war conditions ended, the depression would return. Most of big business decided a big federal government could stabilize the economy and prevent a return of depression.

The 1948 CED statement on monetary and fiscal policy observed, "This generation, after the worst depression and one of the most severe inflations [after World War II price controls were ended] in our history, knows that our economy can have great fluctuations of production, employment, and prices" (CED, 1948, 9). To avoid a recurrence of the depression, the report endorsed counter-cyclical government policy, including monetary expansion and tax cuts if a depression threatened, even if it meant running a government budget deficit. The report noted that after the war the size of the federal government had greatly expanded relative to the economy, to 15 to 25% of the national income depending on military spending needs. It concluded, "Wise policy with respect to budgets of this size can exert a great stabilizing influence upon the economy" (14).[28]

The statement also made clear that big business regarded the stakes as very high in the effort to prevent another depression. After enumerating the obvious costs of a depression in output lost, unemployment, bankruptcies, and home foreclosures, it added the following consequences: "the resulting deep sense of injustice and frustration" and "the growing receptivity to futile or dangerous ideas that appear to promise relief from all ills" (9–10). That is, big business was fearful that, if severe depression returned and people became convinced that this was an inevitable experience in a capitalist system, the result would be growing support for a socialist alternative to capitalism. Keynesian policy seemed far preferable to losing capitalism.

The third factor pushing big business toward support for the new institutions of regulated capitalism was the significant popular support for Socialist and Communist parties in many of the major developed capitalist countries. In Britain the then radical Labor Party won a big election victory in 1945 and initiated a program of nationalizing major industries. Communist and Socialist parties were vying for power in France and Italy. Left-wing parties were also strong in Japan. Even in the United States, the Communist Party had played a significant role from the late 1930s through the mid-1940s, although it was easily crushed in the Cold War conditions that arose after World War II. It is likely that American big business feared that support for socialism might spread to the United States even in the absence of another massive depression. A policy of recognizing some labor rights and the pursuit of full employment must have appeared to be a bulwark against the spread of socialist sentiment in the United States. Similarly, the acceptance by big business of the modest social welfare programs initiated in the 1930s, expressed in the 1944 CED document (Benton, 1944), which opposed an effort to roll back Social Security or unemployment compensation, must have seemed a small price to pay for warding off socialism.

Fourth, and last, following the end of World War II the number of Communist Party-ruled states suddenly jumped, from one—the USSR—to nine. Communist parties came to power in six Eastern European countries under occupation by the Soviet army, as well as in two Eastern European states without Soviet assistance (Yugoslavia and Albania). A few years later, in 1949, the Chinese Communist Party came to power in the world's most populous country, which meant that about one-third of the world's population was living under Communist Party rule. Thus, a powerful Communist bloc emerged for the first time. The Communist-ruled states claimed to be workers' states that had eliminated the problems that capitalism posed for workers. This pressed big business to make concessions to labor, to prevent American workers from viewing the now globally influential socialist system as an appealing model.[29]

A few big business leaders had supported the New Deal in the 1930s, such as Joseph Kennedy, whom Roosevelt named to be the first head of the Securities and Exchange Commission.[30] However, such renegades were a minority in the 1930s, as most of big business opposed the New Deal's initial attempts to establish a regulated form of capitalism. It was only during and after World War II, under the changed conditions recounted above, that a decisive part of big business shifted in favor of regulated capitalism. As big business entered a coalition with organized labor in support of regulated capitalism, this powerful coalition was able to establish and consolidate the new system.

Not all of business supported regulated capitalism. Two segments remained in opposition. One was composed of particular big business leaders who held onto their long-standing hostility to trade unions and government efforts to stabilize the economy. For example, the du Pont family, one of the wealthiest in the U.S., remained in diehard opposition. Their base was the DuPont Chemical Company and, for a time after World War I, General Motors, which they controlled until the late 1930s.[31] However, the big business opponents of regulated capitalism were now in a minority.

The main opposition to regulated capitalism came from smaller business and its associations. The U.S. Chamber of Commerce, which had long been the major representative of small business, did not give up its opposition to regulated capitalism, particularly to the acceptance of trade unions, social welfare programs, and budget deficits (Collins, 1981). In congressional hearings in the 1950s on economic policy issues, the Chamber of Commerce regularly sent its experts to testify that trade unions infringed on the rights of workers, that Social Security undermined work incentives, and that America was heading down a slippery slope toward socialism. The opposition to regulated capitalism from small business was understandable. Unlike big business, small businesses struggle to survive from day to day, typically operating on razor-thin profit margins in highly competitive sectors of the economy. A significant proportion of small business goes bankrupt every year. They have difficulty paying union wages, affording taxes to support social welfare programs, and handling the expense of complying with government regulatory programs.

In the post-World War II period, big business faced a quite different environment from that of small business. Typically operating in industries with only a few major competitors and possessing large financial resources, they could afford to pay union wages and the taxes required to support social welfare programs. If necessary they could use their market power to pass on cost increases via price rises. Unlike small businesses, they did not face the fear of being driven out of business, which made it possible to take account of potential long-run benefits of the new arrangements that might outweigh their costs. A large federal government that would intervene in the economy was a fearsome prospect to the typical small business, which had little power to affect the direction of federal government policy, whereas big business was confident of its power to prevent a big federal government from turning against its core interests. While these features of the situation of big business by no means guaranteed its support for a regulated form of capitalism, in the conditions of the late 1940s they made it palatable to big business.[32]

Regulated capitalism ended up working remarkably well for big business, probably better than had been expected. As the "golden age of capitalism" proceeded in the United States, it brought many benefits for big business, including stable labor relations, predictable labor costs, an absence of severe recessions, rapid economic growth, and a high rate of labor productivity growth. Workers' wages rose but, over the long run, no faster than output per worker, and by the mid-1960s the rate of profit hit a post-World War II high, as we shall see below.

Yet regulated capitalism did have features that were not optimal for big business. They had to contend with relatively powerful trade unions. They had to help pay the cost of social welfare programs. They had to endure various kinds of state regulation. Nevertheless, workers' struggles, fear of another depression, and fear of communism/socialism had led big business to reluctantly accept reforms that they undoubtedly would have been happier to do without.

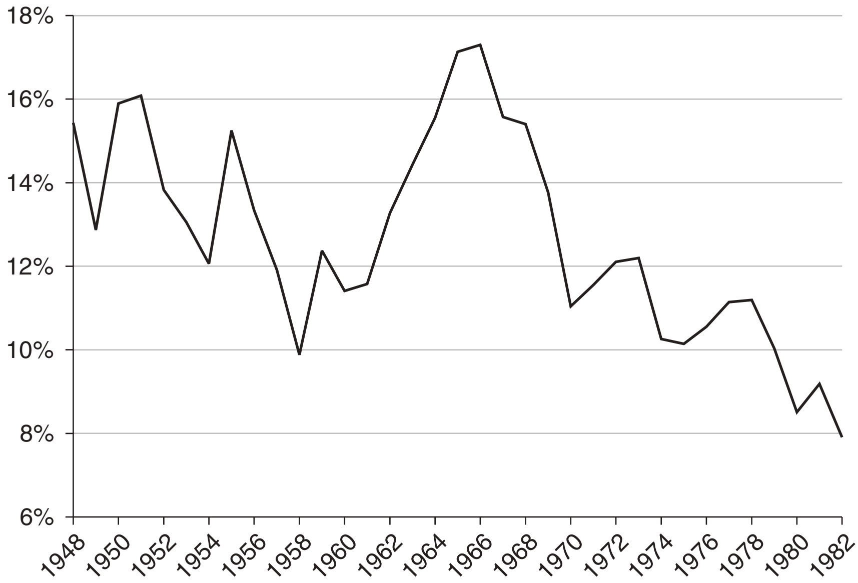

Figure 3.1. Rate of profit of the U.S. nonfinancial corporate business sector, 1948–1982.

Sources: U.S. Bureau of Economic Analysis, 2013, NIPA Table 1.14, Fixed Assets Table 4.1.

End of the Golden Age: The Crisis of the 1970s

As was noted above, regulated capitalism brought relatively rapid economic growth in the United States from the late 1940s through the early 1970s. From 1948 to 1973 there was rapid growth in GDP, in private sector output, and in labor productivity. While poverty and inequality were not eliminated, the economic growth of that period was widely shared as real hourly wages grew rapidly and consistently (with only one year of decline in 1959) and the degree of income inequality decreased over the period. Detailed data on these trends are presented in Chapter 4.

Business was not left behind in the golden age of capitalism. Figure 3.1 shows the rate of profit for the nonfinancial corporate business sector in the United States While the profit rate trended downward from the early 1950s through the early 1960s, in the mid-1960s it rose to its highest rate of the postwar period, reaching 17.3% in 1966.

However, after 1966 a problem arose from the viewpoint of business. While real wages kept growing, if somewhat more slowly than

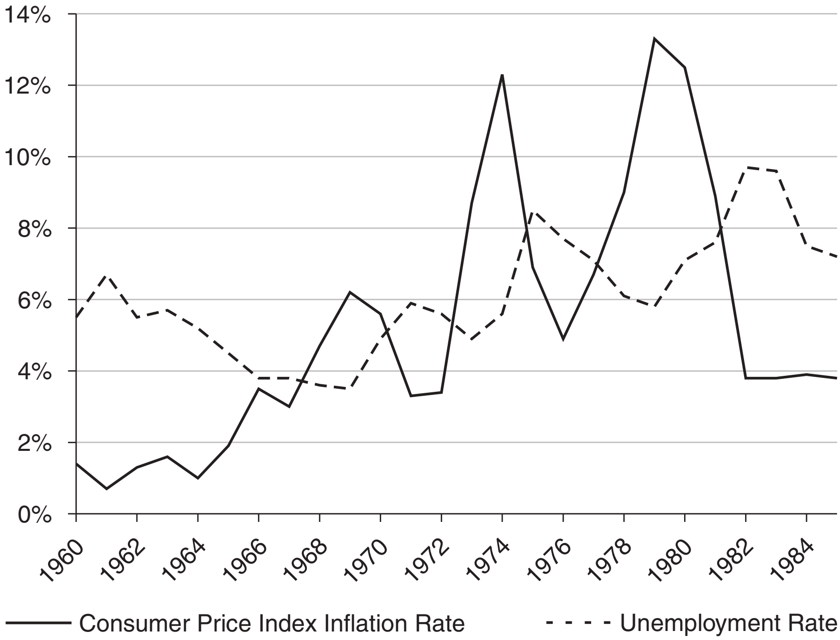

Figure 3.2. Annual inflation and unemployment rates, 1960–1985.
Source: U.S. Bureau of Labor Statistics, 2013.
Note: Consumer price inflation is measured from December to December.

previously, profits began to perform badly. From 1966–73 the real hourly wage grew at 1.7% per year, down from its growth rate of 2.5% per year from 1948–66 (*Economic Report of the President,* 1990).[33] However, as Figure 3.1 shows, the rate of profit trended sharply downward during 1966–73, losing 29.5% of its 1966 value by 1973.[34] From 1966 to 1973 the share of labor compensation in national income rose by 2.8 percentage points, while the share of corporate profits fell by almost the same amount, 3.0 percentage points (U.S. Bureau of Economic Analysis, 2013, NIPA Tables 1.1.4, 1.12, and 1.14).

After 1973 both labor and business experienced a squeeze. During 1973–79 the real wage fell by 4.4%, while the rate of profit continued its decline, falling by 17.8% over that period. Output per hour in the nonfarm business sector rose at a rate of only 1.1% per year in 1973–79 (U.S. Bureau of Labor Statistics, 2013). The years 1973–79 are rightly considered a period of economic crisis.

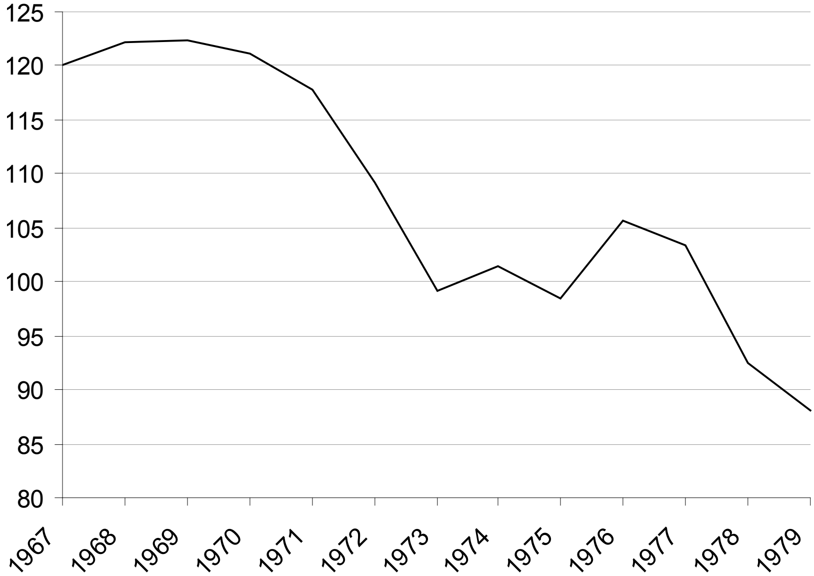

Figure 3.3. Multilateral trade weighted value of the U.S. dollar, 1967–1979 (March 1973=100).

Source: Economic Report of the President, 1990, 418, Table C-109.

After 1973 not only did wages and the rate of profit fall while productivity stagnated, but the economy entered a period of instability. An inflation that had been building since the late 1960s accelerated in 1973–74, as the newly empowered Organization of Petroleum Exporting Countries sharply boosted oil prices in late 1973 while at the same time wage-price controls in place since 1971 were lifted. As Figure 3.2 shows, the dreaded condition of stagflation gripped the American economy in 1974–75, as a relatively sharp recession drove the unemployment rate to 9.0% in May 1975, while inflation, despite subsiding somewhat, remained high. Consumer prices rose by 8.3% in 1973, 12.3% in 1974, and 6.9% in 1975. Both the unemployment rate and the inflation rate trended noticeably upward after 1973.

At the same time, international currency markets became unstable as the Bretton Woods monetary system, with its fixed exchange rates, collapsed during 1971–73. The international value of the dollar, which remained the world's trading currency, fell sharply and had sizeable wobbles after 1971, as Figure 3.3 shows. During 1973–79 there was a generalized sense in the United States that the economy was spinning out of control. Keynesian techniques, which had previously worked effectively, proved powerless to simultaneously solve the problems of high unemployment, rapid inflation, and international currency instability. Fiscal and monetary expansion would stimulate growth and reduce unemployment, but before unemployment reached what was considered an acceptable level, inflation would take off. Contractionary policy slowed inflation but at the cost of very high unemployment.

As for the Great Depression of the 1930s, there is no agreement among specialists about the cause of the economic crisis of the 1970s. The social structure of accumulation theory locates the underlying cause of a long-lasting economic crisis in the end of the ability of a social structure of accumulation, which had previously promoted profit-making and economic expansion, to any longer work effectively. However, that theory does not specify exactly why a particular social structure of accumulation will stop working effectively at a given time and place. Bowles et al. (1990, chap. 5) provide a persuasive analysis of the causes of the 1970s economic crisis within a social structure of accumulation framework. They argue that the major underlying reason why the postwar regulated capitalism that had worked so well since the late 1940s had turned into an obstacle to stability, profit-making, and growth in the 1970s was the emergence of increasing conflict between American big business and subordinate groups in the United States and internationally. This conflict destabilized regulated capitalism and led to the crisis of the 1970s.

Workers resisted bad working conditions and job speedups and fought for a larger share of the pie. The labor movement and its allies succeeded in expanding the welfare state through such measures as Medicare, the food stamp program, and improvements in the Social Security system. Citizens mounted increasingly effective campaigns to stop corporations from imposing the rising costs of their profit-making activities on society in the form of dangerous products, unsafe jobs, and environmental destruction. Oil-exporting states in the Middle East and Latin America demanded and received a better price for their oil exports. U.S. manufacturing companies, which had faced no serious competition from imports since the 1940s, suddenly faced effective competition from West European and Japanese companies starting in the late 1960s.

Bowles et al. (1990) argue that U.S. big business sought to clamp down on each of the above groups, but the multiple conflicts remained unresolved through the end of the 1970s. That is, intensifying conflict between big business in the United States on the one hand and U.S. labor, U.S. citizens, poor countries, and capitalists in other developed countries on the other rendered the social structure of accumulation no longer effective. The result was a falling profit rate, stagnant productivity growth, rising inflation, increasing unemployment, the breakdown of the Bretton Woods system, and international monetary chaos.

While we consider this explanation for the 1970s crisis to be persuasive, it is not necessary for our purposes to evaluate it or to consider alternative explanations. The following economic facts are not in dispute: 1) an economic crisis emerged in the 1970s; 2) the crisis was preceded by a steep drop in what matters most to business, the rate of profit, and the decline continued through the end of the 1970s; 3) labor productivity growth, which is a key variable that underlies the ability of business to gain rising profits over time, practically disappeared; 4) the smoothly functioning "mixed economy" promised by regulated capitalism had stopped functioning smoothly, and the remedy it endorsed for fixing economic problems—Keynesian demand management—was not able to solve the problems.

During the course of the 1970s, debates raged about the cause of the problems afflicting the economy. Various business groups argued for a variety of solutions, as did representatives of other segments of society. One prominent investment banker, Felix Rohatyn of Lazard Freres and Company, advocated a still more regulated form of capitalism based on tripartite deals among representatives of business, labor, and government. However, that direction never gained traction among big business which, in the context of the economic crisis of the 1970s, gradually coalesced around a different solution. That solution is what we know today as neoliberalism.

Evidence That Big Business Shifted to Support of Neoliberalism in the Late 1970s

In October 1972 a new big business organization, the Business Roundtable, was formed from the merger of two little-known predecessor organizations. Unlike earlier business organizations, its membership was

Table 3.4. Selected Business Roundtable Members, 1972 and 1979

AT&T+	Firestone Tire & Rubber Co.*+
Allied Chemical Corporation*+	Ford Motor Company*+
Aluminum Company of America*	General Dynamics Corporation*+
American Can Company*+	General Electric Company*+
American Electric Power Company*	General Foods Corp.*+
Atlantic Richfield Company*+	General Mills, Inc.*+
B.F. Goodrich+	General Motors Corporation*+
Bank of America+	Gulf Oil Corp.*+
Bethlehem Steel Corporation*+	International Harvester Company*+
Burlington Industries, Inc.*+	International Nickel Co.*+
Burlington Northern, Inc.*+	International Paper Co.*+
Campbell Soup Company*+	J.C. Penney Co., Inc.*+
Champion International Corp.*+	J.P. Stevens+
Chase Manhattan Bank*+	Kennecott Copper Corporation*+
Chrysler Corporation*+	Mobil Oil Corporation*+
Citibank*+	Morgan Guaranty Trust Co. of N.Y.+
Coca-Cola+	Morgan Stanley & Co., Inc.+
Consolidated Edison*	Procter and Gamble+
Corning Glass Works*+	R.H. Macy & Co., Inc.*+
Crown Zellerbach Corp.*+	Scott Paper Company*+
Dow Chemical Company*+	Sears, Roebuck and Co.*+
E.I. du Pont de Nemours & Co*+	Shell Oil Company*+
Eastern Air Lines*+	Texas Power & Light Co.*
Eastman Kodak Company*+	United Aircraft Corp.*
Exxon Corporation*+	United States Steel Corporation*+
Federated Department Stores, Inc.*+	

* Member in 1972.
+ Member in 1979.
Source: Business Roundtable, 1972; Green and Buchsbaum, 1980, Appendix A.
Note: From the membership list of the Business Roundtable for October 16, 1972, and August 1, 1979.

restricted to corporate CEOs. At its founding it had eighty-two corporate members, including the heads of more than half of the hundred largest industrial companies in the United States, and by 1979 it had nearly seventy of the top hundred (Reuss, 2013, 69–70). Its membership was not limited to industrial companies but included large corporations from across the nonfinancial and financial sectors of U.S. big business. A sampling of its big corporate members in 1972 and 1979 is shown in Table 3.4.[35] Forty-five big corporations (or their predecessor companies) on the membership list of the Business Roundtable had previously been affiliated with the CED at some point between 1943 and 1964, including AT&T, Bank of America, Citicorp, Exxon, Ford, General Electric, General Motors, J.P. Morgan, and U.S. Steel.

Unlike the CED, the Business Roundtable was set up as a lobbying group. With broad representation of big companies from the major sectors of U.S. business, it sought to represent the interests that big business had in common. It became the most important organization pressing the interests of big business in the United States in that period (Clawson and Clawson, 1987; Ferguson and Rogers, 1986; Vogel, 1989; McQuaid, 1982). It managed to achieve a significant degree of unity of purpose among the various corporate interests it represented, which greatly enhanced its influence. For example, in a key battle over labor law reform in 1978, even CEOs who had dissented from the Business Roundtable's decision to oppose that bill nevertheless publicly lobbied against it, as described below (Vogel, 1989, 154–155).

The founding document of the Business Roundtable, issued in April 1973, was cautious and relatively bland. It described its mission as economic education, better public communication, application of law through litigation, improved government relations, and better balance in labor-management relations, although the last aim did foreshadow what would a few years later become an aggressive stance toward labor (Business Roundtable, 1973). However, over the course of the 1970s the Business Roundtable became increasingly assertive in its policy advocacy.[36]

Although the Business Roundtable was a lobbying group rather than a policy organization, it occasionally issued papers and reports that showed support for various elements of neoliberal restructuring. In 1977 its Task Force on Taxation Proposals argued that greater incentives were needed to spur business investment, including a reduction in the corporate income tax, bigger tax deductions for depreciation, and reduced taxation of capital gains (Business Roundtable, 1977). Two years later, in 1979, another report addressed Social Security retirement pensions. It emphasized that they should be regarded as just a “floor” to meet “basic needs” and that benefits “should be reviewed critically to determine if they are really necessary” (Business Roundtable, 1979, 3–4). The “floor” provided by the Social Security retirement program should be supplemented by individual workers’ savings and private pension plans, which “offer greater flexibility to meet individual desires and circumstances” (4). It also called for raising the retirement age (6).

A series of reports by or for the Business Roundtable in 1979–81 called for cutbacks in social regulation. A 1979 study for the Business Roundtable by Arthur Andersen found that a sample of forty-eight large corporations incurred $2.6 billion in regulatory compliance costs in 1977, which was 15.7% of the companies’ net income after taxes and 43.4% of total R&D spending (Arthur Andersen, 1979, iii). A multi-volume study of air quality for the Business Roundtable urged a change in the method of assessing health damage from poor air quality, proposing that the finding of an “adverse health effect” from bad air quality should be limited to conditions resulting in “permanent damage or incapacitating illness” (Ferris and Speizer, 1980, iv). Rejecting the current approach of adding a margin of safety in deciding on air quality standards, the report supported substituting “acceptable risk” (iv). A 1981 report on productivity growth cited the “burden of excessive government regulation” as a key cause of the lagging productivity growth of that period (Business Roundtable, 1981, 1). It called for cost-benefit analysis to decide whether regulations were justified and cited a much-criticized estimate that government regulations cost $126 billion in 1980 made by Murray Weidenbaum, the first chairman of the Council of Economic Advisors in the Reagan administration and a longtime critic of government regulation of business (8).

However, the Business Roundtable’s lobbying activities in the 1970s are the best indicator of what it stood for. During 1975–78 the Business Roundtable fought a largely defensive battle against labor and public interest groups to stave off their attempts to strengthen the labor movement and tighten social regulation. The Watergate scandal of 1973 had led to a big increase in the Democratic majorities in both houses of Congress after the 1974 election, and the labor and public interest movements pushed to advance their political agendas. While President

Ford vetoed a number of the resulting bills, Democrat Jimmy Carter's election in 1976 seemed to create favorable conditions for passing laws long sought by labor and public interest groups.

Starting in 1977 the Business Roundtable was able to block a succession of such bills. In 1977 it was instrumental in defeating in Congress a measure, called "common situs," that would have strengthened the bargaining power of construction unions. In 1978 it was able to block passage of a bill that would have created a new overarching consumer protection agency long favored by the regulatory movement, handing consumer advocate Ralph Nader an unaccustomed defeat (Vogel, 1989).

The most dramatic, and unexpected, victory for the Business Roundtable was the defeat of a labor law reform bill in the first half of 1978. The proposed Labor Law Reform Act of 1978 was labor's top legislative priority, intended to reverse the decline in union representation. While existing labor law supported workers' right to organize or join a union, in practice non-union companies often used illegal tactics to defeat unionization, including firing workers for supporting a union. The resulting legal actions took many years to resolve, and penalties were very small. The Labor Law Reform Act would have shortened the time period for National Labor Relations Board decisions and modestly increased fines for such violations as firing workers for union activity. The bill had gathered large majorities of supporters in both houses of Congress, and President Carter promised to sign such a bill.

While several business organizations lobbied against the bill, including those representing small businesses, the Business Roundtable played a central role in its defeat. Working together with the Chamber of Commerce and the National Association of Manufacturers, the Business Roundtable lobbied actively against the bill. General Electric's CEO, Reginald Jones, had supported neutrality on this bill in the Business Roundtable's Policy Committee—GE workers were already unionized so the bill would have no direct effect on GE. However, when the vote in the Policy Committee went heavily in favor of working against the bill, GE nevertheless then publicly opposed the bill and lobbied against it. Big corporations used their corporate jets to fly small businessmen from around the country to the Capitol to see their representatives. The effort succeeded when enough Senate supporters were peeled away to narrowly sustain a Senate filibuster of the bill in June 1978, and the bill died (Vogel, 1989, 154–156). Labor leaders concluded, correctly, that the big corporations that had for decades refrained from joining small business in fighting organized labor had now shifted their position.

Not all of the Business Roundtable's efforts in the 1970s were defensive. In 1978 the Business Roundtable was instrumental in turning a mildly progressive tax reform bill into one that was a business wish list, including a reduction in the top tax rate on capital gains from a proposed 48% to 28%. In the same year, criticisms of "excessive government regulation" by the Business Roundtable as well as by other business organizations and in the mass media pushed President Carter to issue an executive order requiring regulatory agencies to conduct economic impact studies of proposed regulations (Ferguson and Rogers, 1986, 106). This was the beginning of the shift away from the original rationale for social regulation—that business practices should be stopped if they cause harm—to the cost-benefit approach of comparing the projected harm to the difficult-to-measure costs of the regulations.

After Ronald Reagan took office in January 1981, his administration quickly put together a program aimed at implementing the key components of neoliberal restructuring. In March 1981 the Business Roundtable publicly endorsed his entire economic program. A Business Roundtable statement on the Reagan administration's economic plan said, "The business community feels strongly that all four parts of the economic recovery plan [decreases in social spending, tax cuts, regulatory reduction, and tight monetary policy] are essential, interrelated, and must be acted upon". Two months later the Business Roundtable issued a report stating, "An economic crisis confronts the American people and requires far-reaching changes in economic policy" (McQuaid, 1982, 320). Thus, the Business Roundtable gave up its earlier support of the institutions of regulated capitalism to first oppose any further extension of them and then to work toward reversing some of the key institutions of regulated capitalism.

The actions of the Business Roundtable, representing many of the same corporations that had played key roles in the CED's endorsement of regulated capitalism in the 1940s, in support of what came to be called neoliberal restructuring during the 1970s through 1981 is one piece of evidence that a broad, and decisive, section of big business shifted its position in those years. Big business deserted its previous coalition with organized labor, allying with small business instead.

However, there are other types of evidence of this shift on the part of big business in this period as well.

The CED remained an active policy institution in the 1970s, and in 1980 its board of trustees still included representatives of a broad cross-section of U.S. big business, both financial and nonfinancial (CED, 1980), although the CED did not play the same role as the main representative of big business in the policy arena that it had played in the 1940s. Policy statements by the CED from the early 1970s through 1980 show a gradual evolution from its earlier positions in favor of regulated capitalism to the endorsement of key elements of neoliberal transformation. A 1972 CED report, *High Employment without Inflation,* sounded a Keynesian note, endorsing "sound management of total demand through appropriate fiscal and monetary policies" (CED, 1972, 16). It went even further in the direction of state intervention by endorsing wage-price regulations (17). In 1976 the CED issued a report on inflation and economic growth that withdrew support from highly interventionist wage-price regulations but stuck with the traditional Keynesian policies. It recommended expansionary fiscal and monetary policy aimed at a 6% per year growth rate over the following two years to bring down unemployment while pursuing longer-run efforts to reduce structural unemployment and increase business investment (CED, 1976). However, by 1980 the CED issued a report that endorsed "firm restraint in fiscal and monetary policies" to bring inflation under control, despite the recession in that year (CED, 1980, 2–4). The report called for tax and regulatory reform to spur saving and investment (5).[37]

In 1979 the CED issued a broad policy statement entitled *Redefining Government's Role in the Market System,* which indicated the organization's shift in policy orientation. The report criticized "the largely unguided growth of government involvement in the economic system," warning that the government was "placing increasingly excessive demands on the private sector" (CED, 1979, 9–10). It called for cutting back the state's regulation of business, stating that "the country would be well served by freeing markets from ill-designed government constraints" (14). Thus, the change in the CED's policy statements over the course of the 1970s provides further evidence that U.S. big business abandoned regulated capitalism to support neoliberal transformation over the course of that decade.

Another kind of evidence of this shift involves public policy think tanks. In the 1950s and 1960s a number of influential think tanks had issued policy analyses framed within the Keynesian consensus of that period. Big corporations provided financial support for these think tanks, of which the Brookings Institution was the most important. Such think tanks play an important role in the United States by providing policy analyses not just to Congress and the executive branch of government but also to the mass media. Their influence is not limited to individual policy issues, but extends to affecting the dominant framework for assessing public policy. Brookings was a pillar of the dominant "mixed economy" view of public policy in the postwar decades.

During the 1970s several new, or revived, think tanks emerged that aggressively supported neoliberal restructuring. The most influential was the American Enterprise Institute. The American Enterprise Institute had its origins in the 1940s and had remained a small, modestly funded conservative think tank through the end of the 1960s. In 1970 the American Enterprise Institute's annual budget was less than one million dollars. In the following decade its annual budget rose more than ten-fold. By 1980 the American Enterprise Institute's trustees included officials of Shell Oil, Chase Manhattan Bank, Citicorp, Hewlett-Packard, Standard Oil of California, and Texas Instruments, and General Electric had become a donor (Peschek, 1987, 28; Phillips-Fein, 2009, 211). Another important neoliberal think tank, the Heritage Foundation, founded by longtime supporter of right-wing causes Joseph Coors, in 1973 had trustees from Chase Manhattan Bank, Dow Chemical, General Motors, Pfizer, Sears Roebuck, and Mobil (Edwards, 1997, 227–229; Phillips-Fein, 2009, 171–172). One study found that while in 1970 the three top "conservative" think tanks—the American Enterprise Institute, Heritage, and the Hoover Institution—had combined annual budgets amounting to only 45% of that of the Brookings Institution, by 1980 their combined budgets were two-and-a-quarter times as large as that of Brookings. The American Enterprise Institute alone had a budget surpassing that of Brookings by 1980. At the same time, the studies published by Brookings shifted in the direction of the neoliberal think tanks (Clawson and Clawson, 1987, 207).

The rapid rise of corporate-funded think tanks promoting neoliberal ideas and policies in the 1970s, along with an increasingly favorable treatment of neoliberal policy ideas in the mass media in that decade, was a major reason for the rapid increase in the influence of neoliberal ideas and theories in the U.S. economics profession. Suddenly young academic economists could easily obtain funding for research aimed at demonstrating the virtues of free markets and the dangers of government regulation. However, another factor was the intellectual appeal to academic economists of the purity of the free-market theory, by comparison to the mixed message of the Keynesian version of economics, which claimed to find virtues and flaws in both markets and states with no simple "optimal" combination of the two.[38]

A final piece of evidence of the big business shift from support of regulated capitalism to endorsement of neoliberalism comes from support of candidates for national office. In 1964 Senator Barry Goldwater of Arizona won the Republican presidential nomination on a platform that foreshadowed the neoliberal agenda, including opposition to state regulation of business, social welfare programs, and trade unions.[39] However, the 1964 election came at the high point of regulated capitalism and of big business support for it. Goldwater was trounced in a landslide by the incumbent, President Lyndon Johnson. The Johnson campaign was able to gain endorsements from a long list of big corporate officials, including from Ford, Morgan Guarantee Trust, Eastman Kodak, Federated Department Stores, Xerox, and Phillips Petroleum. Even more telling was the shift in campaign donations by members of the elite Business Council, a big business organization that had helped create the CED in the 1940s. In the 1956 and 1960 presidential elections, Business Council members' donations had gone overwhelmingly to the Republican candidate.[40] However, in the 1964 race this reversed, as Business Council members' donations to the Johnson campaign exceeded those to the Goldwater campaign by more than 50% (McQuaid, 1982, 232).

The 1980 presidential campaign turned out differently. As in 1964, one candidate, this time Ronald Reagan, clearly represented a platform of abandoning regulated capitalism in favor of neoliberalism. Initially Reagan's presidential aspirations relied for financial backing primarily on self-made entrepreneurs from the South and West. After winning the Republican presidential nomination, Reagan jettisoned or played down some of his problematic positions, such as his call for recognizing Taiwan in place of China and his support of trade protectionism. He then got overwhelming support from big business in the final round of the campaign. Carter retained only "a few investment bankers and a handful of multinational business figures" (Ferguson and Rogers, 1986, 112–113). The growing assertiveness of big business in politics was reflected in the abandonment in the 1980 election of the previous pragmatic approach of support for incumbents of either party by corporate political action committees. Unlike in previous elections, in 1980 about 40% of corporate PACs ended up "supporting ideological conservative challengers, even where they were running against powerful moderate incumbents" (Clawson and Clawson, 1987, 213). Thus, in 1980 big business helped not only to put an avowed neoliberal in the White House but also sought to provide a like-minded Congress.

The casual observer might view Reagan's election in 1980 as the cause of the neoliberal revolution, which would seem to point toward changing views on the part of the electorate as the explanation. However, the evidence strongly supports the different interpretation proposed here: that over the course of the 1970s big business shifted from support of regulated capitalism to endorsement of neoliberal restructuring. This led to a beginning of neoliberal restructuring in the United States several years before Reagan's election. Even after Reagan's election, the success of his neoliberal program would be difficult to explain based on popular political views. Public opinion surveys show that during the first two years of his presidency—the period when his neoliberal program was enacted—Reagan had the lowest level of popularity of any president (during the first two years of the term) in the fifty-five years of surveys on that question, well below the ratings of Eisenhower, Kennedy, Nixon, or Carter in their first two years. In 1981 the Reagan administration faced a Democratic majority in the House of Representatives, and in the Senate the Republicans had a majority of fifty-three to forty-six that was far short of the number needed to end a filibuster. Despite lagging public support and large obstacles in Congress, Reagan was able to push his neoliberal program through Congress with only minor modifications. Clawson and Clawson (1987, 214–215) conclude that "Reagan's success is . . . to be explained by the fact that his program was supported by a virtually unanimous business community"—an outcome made possible by big business's desertion of its previous coalition with organized labor to ally with smaller business.[41]

Why Did Big Business Shift to Support for Neoliberal Restructuring?

Several factors explain the surprising shift of big business from support for regulated capitalism to promotion of neoliberal restructuring. The first stems from the economic crisis of the 1970s as it was experienced by big business. Previously it was shown that, after the mid-1960s, the rate of profit in the United States fell significantly. The founding document of the Business Roundtable showed awareness of and concern with this trend as of 1973, complaining, "After-tax profits peaked in 1966 . . . but declined sharply in the ensuing period of cost-squeeze," adding that "profits as a percentage of national output were lower in the early Seventies than in any year in the entire postwar period [*sic*]." As for the cause of this cost-squeeze on profits, the document left no doubt: "Starting in 1966 . . . unit labor costs accelerated sharply, and the aftermath was excessive inflation and a severe profit squeeze" (Business Roundtable, 1973, slides 18–20). As early as 1973 the Business Roundtable was concerned that rising wages and stagnating productivity (also mentioned in the document) had led to the years of declining profitability.

A second factor was the expansion of social regulation—that is, regulation of the environment, job safety and health, and consumer product safety—in the 1960s and early 1970s. This was a product of a combination of new popular movements and a politically strengthened labor movement, which came together in the late 1960s to pass new social regulation laws.[42] When big business had accepted the key institutions of regulated capitalism in the late 1940s, a high degree of social regulation was not part of the deal. Unlike the original main features of regulated capitalism, social regulation entailed constraints on the profit-seeking behavior of most sectors of business. Hence, it tended to unite business in opposition. A number of studies of business political behavior in the 1970s, such as Vogel (1989) and Clawson and Clawson (1987), argue that the expansion of social regulation was a significant factor in the political mobilization of big business against an active government role in the economy. Following Bowles et al. (1990), this factor can be interpreted as a response by business to the extension of regulated capitalism occasioned by the empowerment of labor and citizen organizations, which in turn was due to the operation of regulated capitalism

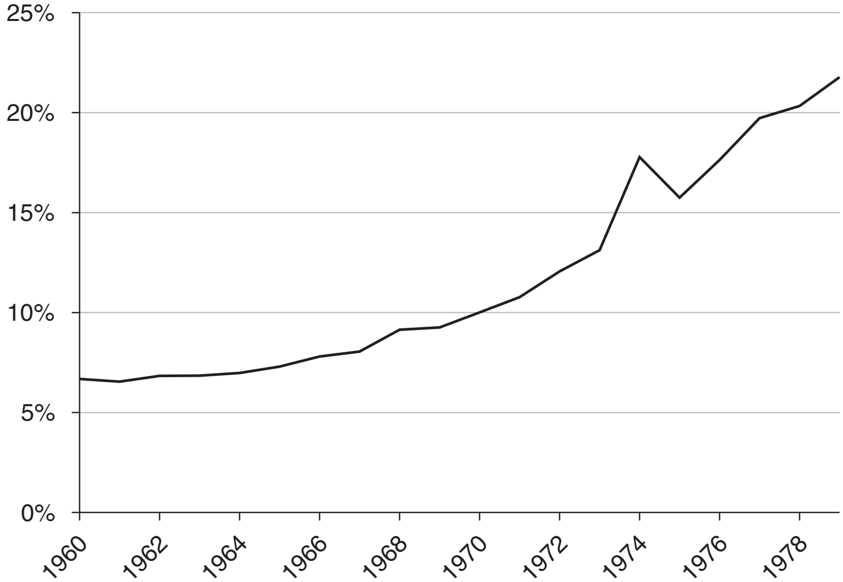

Figure 3.4 Goods imports as a percentage of goods-only gross domestic product, 1960–1979.

Source: U.S. Bureau of Economic Analysis, 2013, NIPA Tables 1.1.5, 1.2.5.

over several decades. That is, this is an example of a way in which an initially effectively working social structure of accumulation eventually gives rise to developments that undermine its further effectiveness in promoting profit-making and economic expansion.

It was noted above that in the mid-1970s labor and public interest groups were on the political offensive, seeking to further advance their interests within the system of regulated capitalism. This was a threat to the balance of regulated capitalism from the perspective of big business. At the same time, as Bowles et al. (1990) have argued, U.S. big business was facing other threats as well, such as that from newly empowered oil-exporting-country governments in the Middle East and Latin America. With a whole set of seemingly intractable problems besetting big business, it is not surprising that they would start to question whether the existing arrangements were any longer to their advantage. There is evidence from the Business Roundtable's founding document that, even in 1973, they were considering whether big changes might be needed, suggesting that solutions might "involve changes in the law, or its administration or interpretation. Some may involve a new philosophy" (Business Roundtable, 1973, 6).[43] However, in 1973 the Business Roundtable did not seem to know yet what the required new direction would be.

A third factor was the impact of intensifying international competition faced by U.S. big business in the 1970s. In Chapter 2 it was noted that U.S. imports began to rise relative to GDP in the late 1960s (Figure 2.9). From the mid-1960s through 1980 imports of goods and services rose from about 4% of GDP to about 10%. However, this understates the rapidly growing competitive threat that U.S. business faced from foreign competition in this period, since a large part of the goods and services in the GDP are not traded across national boundaries. Goods imports relative to goods output in the GDP was 6% to 7% in the early 1960s, as Figure 3.4 shows. In the late 1960s it began to rise, reaching 13.1% in 1973 and 21.8% in 1979. It had tripled over the period. Major manufacturing industries that had little or no foreign competition in the 1950s and early 1960s now faced growing inroads by companies based in Japan and Western Europe.[44]

The increasing market share of foreign companies that entered core U.S. industries put pressure on the co-respective form of competition that had been followed in those industries. Establishing and maintaining co-respective competition is feasible only in an industry dominated by a small number of companies that are able to build the stable relationships necessary to avoid price wars. Entry into such industries by foreign companies undermined the old order, and industries once governed by stable price leadership became increasingly competitive. Price wars returned to the world of the large corporation. This had the effect of transforming the world of big business into a form well known to small business. Instead of stable prices and dependable profits, big corporations suddenly faced intense price competition and even the threat of bankruptcy.

The importance of the establishment of co-respective competition by big business—or of its demise—has not been sufficiently appreciated. Big companies located in industries that practice co-respective competition, relieved of concern about short-term survival, can take a long-run view. They can appreciate arrangements that entail short-run costs if they promise long-run benefits.

In the 1970s, following a quarter-century of a highly developed form of regulated capitalism in the United States, co-respective competition was breaking down, largely due to the impact of growing import competition. Simply put, this turned big business into small business. Big business, no longer having the luxury of a stable existence undisturbed by the prospect of bankruptcy, became determined to find ways to cut labor costs, reduce tax obligations, and avoid regulatory restraints on their freedom of action. This made neoliberal ideas and policies, which stressed just such aims, appealing to big business. This was an important reason for the shift on the part of big business away from support for regulated capitalism and toward support for neoliberal restructuring.

What explains the relatively sudden invasion of U.S. markets by foreign companies starting in the late 1960s? On one level, this was a product of the ever-present tendency in capitalism for companies to break down boundaries to their profit-seeking activities, including national boundaries. One can observe this tendency throughout the history of capitalism. In this particular case, the process in the late 1960s was the result of twenty years of operation of the Bretton Woods system. That system supported relatively free trade in goods, which became freer over time. At first U.S. industry, left unscathed by the war, dominated both domestic and world markets. However, the effective operation of the system of regulated capitalism on a global level led to rapid recovery and economic advance in Western Europe and Japan. The Bretton Woods system, which had been a key institution promoting stability and economic growth, by the late 1960s was starting to contribute to the destabilization of another key institution of regulated capitalism, co-respective competition.[45] By so doing, it helped to undermine the class coalition that had underpinned regulated capitalism in the U.S.

A fourth factor pushing big business away from regulated capitalism and toward neoliberalism was the receding of the Great Depression of the 1930s into the dimly remembered past. As the 1948 Business Roundtable document cited earlier showed, that searing experience, and fear of its return after World War II, had undermined free-market economic thought and pushed big business toward acceptance of Keynesian policy. The Great Depression had also played a role in getting big business to accept the welfare state. However, by the 1970s the Great Depression began to appear as a long-ago historical accident that was best forgotten. For decades Milton Friedman had promoted the claim that the Great Depression was a result, not of any flaw in the private sector that the government must correct, but of misguided government monetary policy in the early years of the depression (Friedman and Schwartz, 1963). By the 1970s this view had become influential among academic economists. If a big interventionist state was not needed to prevent depressions, then why should big business continue to support it and foot the bill for it in taxes?

The forces moving big business to abandon the existing regulated form of capitalism in the 1970s were overwhelming. Some of the factors discussed above tended not only to push big business to turn against regulated capitalism but to support neoliberal restructuring as well. However, neoliberal restructuring was not the only alternative to regulated capitalism. As was mentioned earlier, some big capitalists proposed a more highly regulated form of capitalism, based on tripartite bodies representing business, labor, and government, to resolve the problems facing business. However, it appears that big business saw the central problem to be the strength of labor and its allies, a view which was reflected in the Business Roundtable statements cited above. Only nationalization is more threatening to business than declining profitability, and the big business diagnosis of declining profitability focused on labor costs. A form of capitalism based on tripartite bodies would grant labor increased power, so it is not surprising that that proposal found almost no support among business.

Neoliberal transformation represented a viable type of regime change that would restore the power of big business over labor, as well as achieving the other goals of big business in the 1970s cited above. That direction of change could draw upon long-established values embedded in American culture, such as individual freedom and autonomy and limited government. While neoliberal transformation is couched in the language of free markets and individual liberty, it serves to empower capital and weaken labor, as was noted in Chapter 2. Neoliberal transformation promised to reverse the long decline in profitability that was the central concern of big business.

Ideas and Economic Continuity and Change

The rise of neoliberal capitalism, viewed against the background of the earlier rise and demise of regulated capitalism, offers lessons about the role of ideas in economic continuity and economic change. We have seen that in the 1940s big business moved to support regulated capitalism due to a conviction that it was in their best interest. Keynesian ideas and economic theories provided a rationale by arguing that everyone, including both business and labor, would benefit from the institutions of regulated capitalism, which were supposed to bring high employment, high production, and high profits.

In the 1970s, neoliberal ideas and economic theories were remarkably well suited to advance the interests and solve the problems faced by big business at that time. Consider the following examples:

- How can unions be weakened so that labor costs can be driven down? It would not be effective to demand that workers sacrifice so that wealthy capitalists can have more, but it is effective to denounce the union bosses for violating the right of individual workers to act on their own, as neoliberal ideology insists they do.
- How can the welfare state be cut back? It would not be effective to argue that poor people are too well off and so social welfare programs must be cut back to leave more money in the hands of high income taxpayers. However, it is effective to argue that welfare programs destroy work incentives and make people dependent on handouts, so that cutting them will benefit the poor.
- How can the costs and intrusion of social regulation be reduced? It is not effective to defend environmental destruction, unsafe jobs, or dangerous consumer products, but it is effective to denounce meddling Washington bureaucrats who have hamstrung American business, making it impossible for them to compete and destroying jobs.
- How can the cost to business of long-term job security and secure pensions for workers be eliminated? It would not be effective to suggest that workers should be without any job security or retirement security, but it is effective to insist that "flexible labor markets" are necessary to create jobs and compete in the market while workers would be better off if they could invest their own retirement accounts in the stock market.
- How can the taxes paid by business be reduced? It would not be effective to argue that the tax burden should be shifted from those with the most financial resources to those with the least, but it is effective to argue that tax cuts for job-creating businesses will

> benefit workers while individual responsibility and fiscal rectitude require that (regressive) payroll taxes must be increased to cover retirement costs projected to rise decades in the future.

Neoliberal ideas and theories offered arguments that every single institution of regulated capitalism was misconceived, that they are based on collectivist ideas that undermine individual initiative, efficiency, and economic progress. At the same time, neoliberal ideas and theories offered support for every goal of big business in the 1970s. It is not surprising that big business adopted neoliberal ideas in that context. Ideas are indeed important in the demise of an existing form of capitalism and in the construction of a new form.

This is not to suggest that big business leaders were hypocritical, saying one thing while meaning another. Most people, of every station in life, have ideas about what is just and right, and while everyone admits to occasional transgressions, there is a powerful need to believe that one's own actions are just and not merely self-seeking. Coherent sets of ideas have a reality of their own. They motivate and justify a program of action. While big business leaders must have been aware that the neoliberal restructuring they began to endorse in the 1970s would have rewards for them, there is no reason to doubt their simultaneous belief that it represented the best way forward for the U.S. economy and would benefit society as a whole, at least in the long run, as neoliberal theory claimed. The trickle-down effect, recently so often lampooned by comedians and cartoonists, appeared to be a plausible result of neoliberal restructuring at the beginning of the process.

To be effective, a set of ideas must be followed with some degree of consistency. Ideas are an important part of the glue that holds an institutional form of capitalism together and renders it viable. This explains why some developments in the neoliberal era have been contrary to the interests of all or part of big business. For example, a high level of investment in and maintenance of infrastructure is essential to profit-making activity in the long run. However, infrastructure investment is necessarily public investment, and that runs contrary to the way that neoliberal capitalism works—and so that essential form of expenditure has languished in the neoliberal era, as was demonstrated in Chapter 2. Deregulation was opposed by the airlines, railroads, the telephone monopoly, and power companies, but their resistance was overcome by a combination of neoliberal ideology and lobbying by corporate users of such services. Neoliberal ideology is not a perfect fit for all of the interests of big business—and on some issues big companies are divided—but it has been remarkably effective at promoting the core interests of big business as a whole.

As we will see in the next chapter, neoliberal transformation in the United States succeeded in resolving, or ameliorating, all of the major problems faced by big business in the 1970s. However, the "success" of neoliberal transformation had two flaws. First, while neoliberal capitalism restored the rate of profit and stable economic expansion, the benefits were concentrated, and over time increasingly so, among those at the top. While this provoked some protest in the United States and in most of the rest of the world, neoliberal capitalism was able to withstand the protest, and inequality continued to rise. Second, the manner in which neoliberal capitalism restored the profit rate and stable economic expansion turned out to be quite different from the process that had been promised by neoliberal economic ideas and theories. The actual way in which neoliberal capitalism brought economic expansion, in which growing economic inequality played an important part, over time generated financial and economic problems that were bound to eventually derail the system. This derailment occurred in 2008, when the specter of economic depression and financial collapse, which had supposedly been banished from the realm of the possible, suddenly made their return.