

## 7. The incubator of the great meltdown of 2008: the structure and practices of US neoliberalism as attacks on labor

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There are now a significant number of good articles and books describing the Great Recession and the related subsequent lethargic recovery. The number of these articles is constantly increasing as the weak recovery continues, written by both liberal critics<sup>1</sup> of neoliberalism, and radical critics<sup>2</sup> of both neoliberalism and capitalism. The intent of this chapter therefore is not to discuss the recent United States (US) crisis and anemic recovery themselves. Rather, the intent of this chapter is to address two underdiscussed prequel questions: why US capitalists abandoned the previous form of capitalism that had served them so well in the first two decades after World War II (WWII), and (related to that, we will see) why they adopted the specific practices and structure of neoliberal capitalism that existed in the US in 2007.

A second intent of this chapter is to go beyond only analyzing the origins of today's deeply troubled economy, to contribute to building a human-centered alternative. The possibility of the majority in the US beginning a process of building a fundamentally different economy has become a reality today exactly because the dissatisfaction with the existing economy is markedly higher now than at any time since WWII. While not dead, the 'American Dream', that since the country's birth has been so central to its stability and its very self-identity, is now for the first time in its history believed in by only a minority of the population. Polls now regularly show that about 50 percent of the population thinks it is no longer 'possible for just about anyone in America to work hard and get rich', and only about 25 believe that it is possible.<sup>3</sup> Even more devastating to the American Dream, the percentages are similar for the statement: 'today's children [will] be better off than their parents' (Rasmussen Reports 2012). Coming out of this fundamental change is

a growing popular questioning of the US economic system itself. While still a minority, a growing number of people have begun to think of the capitalist system as problematic, and some of these to even consider a socialist alternative as preferable.<sup>4</sup> The depth of the social penetration of these attitudes is unprecedented.

Operating from the conviction that such an alternative must be the product of the members of society themselves, this chapter carries out its analysis of the origins of the Great Recession in terms of economic issues that are today most disconcerting to the non-privileged majority of US society. Specifically, it is concerned with replacing the currently dominant popular desire to fix the existing problems within the frame of capitalism with a desire to fix the problems by transcending capitalism. To do that it is necessary that the popularly perceived problems must come to be understood as existing because of the practices adopted by capitalism in accordance with its goals, and not as policy errors that capitalism will readily abandon if their costs to society as a whole are only presented clearly enough to capitalism's centers of power. The specific content of this chapter is selected to carry out the chapter's central intent of analyzing the causes of the Great Recession, in terms that will promote the efforts for a fundamental economic-social transformation.

The analysis in this chapter of why US capitalism chose the particular practices and structure for the neoliberalism which it had developed by the eve of the post-2007 crisis will be presented in two sections. Section 7.1 will address the first prequel question indicated above: why capitalism came to feel compelled to abandon the post-war-compromise<sup>5</sup> structure that had served it so well for two decades. It establishes that beginning in the late 1960s capitalism's central concerns became its falling rates of profit and accumulation, and that explains why it abandoned its existing model. The new model of capitalism in time was to become known as neoliberalism, and its heart was a consciously intensified attack on the working class. Section 7.2 then goes on to address the second prequel question posed above: why capitalism chose the particular practices it did to address its general concerns with its profits and accumulation. From among its many changes, four aspects of US capitalism's neoliberal restructuring that are central to both its resulting functioning and to the current popular discontent with the economy are: (1) the direct attack (that is, at the point of production) on wage gains and labor costs; (2) the effects of the changed immediate objective of corporate governance;<sup>6</sup> (3) the essential indirect (that is, not at the point of production) attack on labor by making government, the broader state and even general social attitudes (still) friendlier to capital and the very wealthy; and (4) various aspects of financialization. The presentation will make clear that the changes were not simply

some automatic result of the functioning of capitalist markets, but rather were the result of a broad political-economic project that was consciously executed by capital.

On the one hand, it is a fundamental liberal misunderstanding of neoliberalism to consider the dramatic financialization of capitalism as the essence of neoliberalism instead of its intensified attack on labor. But on the other hand, the importance of financialization must not be underestimated. In particular, the interaction of financialization with the real sector was essential to the particular way in which neoliberalism carried out its attack on labor. 'Excessive' financialization therefore is treated here not in accord with the liberal position that it is harmful to capitalism, nor as something 'accidental', nor as something driven strictly by its own interests separate from those of capital as a whole, though it does have such self-interests in addition to its central common interest with the rest of capital. Rather, financialization is treated in this chapter as one important aspect of the actual neoliberalism that developed, and as something which made important contributions to neoliberalism's central goal of intensifying capital's attack on labor.

## 7.1 WHY US CAPITALISM FELT COMPELLED TO ABANDON THE POST-WAR COMPROMISE

There are two reasons why capital felt compelled to abandon its post-war-compromise structure: the fall in the rate of profit, and the fall in the share of national income and wealth of the very rich. The rate of profit and changes in its level are understood here, as in the standard broad Marxist tradition, as centrally important indicators of the general health of capitalism. Profits are both the source of value for the self-expansion of capital and the 'goad of capitalist production' (Marx [1894] 1988: 240). Changes in the very rich's share of the national income need to be considered separately because, while they can be merely the result of changes in the profit rate, they can also occur for other reasons. Two such other reasons that are important in the current popular discontent with the economic system are pro-wealthy changes in taxation,<sup>7</sup> and mushrooming chief executive officer (CEO) and upper financial sector salaries and bonuses. These outsized salaries and bonuses are important to keep in mind as examples where the drive by the very rich to increase their income can actually lower a firm's rate of profit.

While most Marxist discussions of the causes of the Great Recession focus only on the rate of profit, it is important to include the drive by the very rich to restore their share of the national income as a secondary cause.

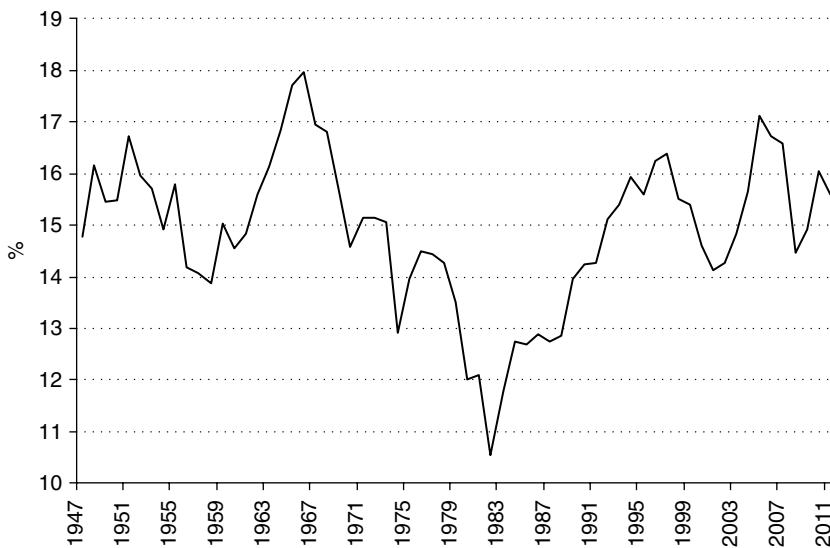
Without it, one cannot fully explain all the specific features that were the trigger for the current crisis. For example, the greatly increased inequality, a much-discussed characteristic of neoliberalism which played such an important role in the onset of the current crisis, was partially driven by the recuperating rate of profit over the first half of the neoliberal period, but only partially. As will be discussed below, the increase in inequality began in the late 1960s and early 1970s, at a time when the rate of profit was still falling. Two possible errors need to be avoided regarding the cause of neoliberalism's increased inequality. First, it is incorrect to treat the success of capital in partially restoring its rate of profit as the sole cause. Second, it would also be incorrect to treat the other cause – the drive by the very rich to increase their share of the national income – as an equally important cause.

### **7.1.1 The Fall in the Rate of Profit and Capital's Declared Response**

Profits were so high in 1966 that the (pro-business, of course) Chairman of the Council of Economic Advisers, Gardner Ackley, asked publically if profits any higher would be harmful to business (Brooks 1971: 298). The following year profit rates began their decade-and-a-half steep decline. The large majority of the empirical work over the last four decades on the post-WWII rate of profit in the US presents results very similar to our results presented in Figure 7.1.<sup>8</sup> For a sample of this rich body of work, see Weisskopf (1978, 1979), Duménil et al. (1987), Michl (1988), Cipolla (1992), Devine (1994), Brenner (1998, 2002), Wolff (2001, 2003), Duménil and Lévy (2002a, 2002b, 2011), Harvey (2005), Glyn (2006), Bakir (2006), Bakir and Campbell (2006, 2009, 2010), Kotz (2007), Basu and Vasudevan (2013) and Cámara Izquierdo (2014).

Figure 7.1 shows that from 1947 to 1973 the aggregate rate of profit for the US private sector was always between 14 percent and 18 percent. Starting from the top of that range in 1966, it then suffered a decade-and-a-half fall to 10.5 percent by 1982. Operating from the premise that capital is driven to self-expand or accumulate through the pursuit of maximum profits implies that capitalists would consider such a steep and extended decline in the rate of profit to be a major problem which needed to be addressed. As background to the changes in the operation of capitalism which this chapter will discuss, this 42 percent decline over 16 years is taken as the major cause for capital's conscious decision to launch its neoliberal restructuring.

While an understanding of the nature and dynamics of capitalism make it clear that capital will react to a sustained significant decline in its rate of profit by increasing its aggression against labor, in this case it also openly



*Source:* Authors' calculations based on national income and product accounts tables, gross domestic product (GDP) by industry accounts tables and fixed assets accounts tables from Bureau of Economic Analysis. For details of calculation, see Bakir and Campbell (2013), or at greater length in the technical appendices in Bakir (2006).

*Figure 7.1 Profit rate in the private sector*

declared its intention to do so. The Construction Users Anti-Inflation Roundtable was formed in 1969, headed by the CEO of US Steel, and published material proposing ways to reduce the wage gains of unionized construction workers. The Labor Law Study Committee from the same time, composed mostly of the executives of large corporations responsible for labor relations, likewise published material directed to reforming labor law to hold down wage gains. In 1971 business openly called for and lobbied for the government to restrict wage gains as much as politically possible in the 'wage-price controls' introduced then.<sup>9</sup> But the most important and most often referred-to document from that time that openly declared the need for capital to escalate its fight against labor was the Powell Memo<sup>10</sup> from August 1971, 'Attack on the American Free Enterprise System' (Powell 1971). This multidimensional call to battle and blueprint for the 1970s 'corporate mobilization'<sup>11</sup> went beyond openly calling on business to coordinate itself to both directly hold down wages and lobby the government for changes in labor law to that end. It was a clear call for the coordination of capitals to enable them to become more aggressive in shaping all US laws and controlling US politics, including going beyond simply pressuring

legislators to instead use capital's vast resources to assure the election of business-friendly legislators and the defeat of labor-friendly ones. Below we will look at some of the results of capital's actions that were quickly to follow these open declarations: here the point is merely to indicate clearly that capital was very open (as it had to be as part of mobilizing itself for the battle) about the need first to sharply reduce workers' wage gains, and then beyond that to more directly capture and fully control the government to use it in pursuit of all of capital's interests in its escalated aggression against labor.

The concern in this section is to indicate the reasons capitalism felt compelled by the 1970s to restructure itself as neoliberalism. Two striking aspects of Figure 7.1 should be briefly noted here even though they concern its subsequent evolution that will be discussed below. First, the early neoliberal restructuring was successful from 1982 to 1997 in achieving a major, albeit not complete, restoration of the rate of profit. But second, despite the existence of mature neoliberalism, the profit rate then suffered a four-year significant decline followed by four years that did little more than recover from that fall. After 15 years of impressive growth in the profit rate following the early consolidation of neoliberalism, mature neoliberalism was unable to deliver further gains over the decade leading up to the Great Recession.

### **7.1.2 The Fall in the Share of National Income of the Very Rich**

As argued above, a second motivation for the neoliberal project, secondary in importance to the desire to restore the rate of profit but partially independent of it, and necessary to include to fully understand the specific US neoliberalism that developed, was the desire of the very rich to restore their share of the national income. Their income share had fallen as a result of the restructuring of the economy during the New Deal, WWII and the first three decades of the post-war period, and then began to recover as first isolated neoliberal policies and then full-fledged neoliberalism were implemented from the 1970s onward. The work by Piketty and Saez (2003) has today become the best-known and most frequently referenced support for this position, though there was a small handful of work documenting this behavior before them.<sup>12</sup> From a bubble-induced peak of 19.6 percent in 1928, first the Great Depression and WWII and then (more important and more sustained) the social policies that began under Roosevelt and continued through the 1960s brought the share of total income of the top 1 percent down to 10.5 percent by 1944 and 7.7 percent by 1973. The early effects of neoliberalism then caused it to begin a slow rise to 8.2 percent in 1980 and 9.0 percent in 1985. Following that, consolidated neoliberalism

caused its mercurial return in just two decades to a pre-Great Depression level of 18.3 percent in 2007. Most authors see this inequality as one important aspect of the structure of capitalism that caused the Great Recession and subsequent anemic recovery, generally as operating through its effects on aggregate demand as discussed below.<sup>13</sup>

## 7.2 THE STRUCTURE AND PRACTICES OF US NEOLIBERALISM IN 2007 AS ATTACKS ON LABOR

Given the fall in the rate of profit and the income share of the super-rich documented in the last section, those negatively affected launched a multifaceted project to reverse these trends. The result over time was a restructured capitalism. The most important changes from the structure and practices of the post-war-compromise capitalism to neoliberalism arose from the direct efforts by capital to restore its rate of profit and its related broader project of increasing its political power, and secondarily from the efforts of the super-rich to restore their share of the national income.

In this section we consider the four aspects of neoliberalism indicated in the introduction that are central to those changes, that at the same time are key to the continually growing popular discontent with the functioning of the US economic system.

### 7.2.1 The Direct Attack (at the Point of Production) on Wage Gains and Labor Costs

The most direct increased aggression against labor occurred in the form of a sharply increased resistance to any increases in labor compensation. While real wages had grown 2.3 percent annually from 1947 to 1967 and a still healthy 1.9 percent from 1967 to 1973,<sup>14</sup> the above-indicated offense by capital turned it negative by 1974. It then stayed slightly negative for most of the next two decades until a short period of healthy growth started in the mid-1990s, after which it returned to extremely weak growth (Mishel et al. 2012: 184). The ubiquitous ‘growing together, growing apart’ graph<sup>15</sup> shows this frozen wage growth sharply by comparing it to productivity growth, that is supposed to be the source of wage growth. From 1947 to 1973 in the post-war-compromise economy, wages and compensation grew almost identically to labor productivity. This changed completely under neoliberalism, where wage growth (just discussed above) turned negative after 1973 and the growth of wages and benefits together turned

negative after 1979, despite productivity growth continuing the same general upward trend as before. The benefits of productivity growth were partially shared in the post-war compromise, but retained almost entirely for capital under neoliberalism. Weak wage growth, both in absolute terms compared to the post-war-compromise period and in relative terms compared to the growth of labor productivity, is a central component of the popular discontent with the US economic performance.

In addition to conceding smaller wage gains, four other key components of capital's 'reduction of labor costs' at the point of production were the increased use of (lower-paid) temporary workers, reduced total wages through two-tier wage systems, actual 'givebacks' (reduction of previously agreed-upon wages or benefits, or 'speed-up' of existing working conditions) and the reduction of the national union density through 'union avoidance' at new plants or actual union busting (Harrison and Bluestone 1988: 39).

### **7.2.2 The Effects of the Changed Immediate Objective of Corporate Governance**

There certainly is a significant, though relatively small, literature on the neoliberal corporate governance paradigm of 'shareholder value'.<sup>16</sup> We believe, however, that most radical analyses have tended to pay insufficient attention to, if not entirely overlook, this extremely important dimension of the neoliberal transformation in the US in favor of (very important) discussions of macroeconomic variables. While the ultimate goal of obtaining maximum profits and accumulating capital remains the same under all organizational forms of capitalism, the change in the ancillary goals of corporations between post-war-compromise capitalism and neoliberalism has been one important part of capital's increased aggression. In the first place the negative effects on labor have concerned their compensation and conditions of work, but additionally they have affected them as consumers and members of society.

Under post-war-compromise capitalism the key to maximizing profits was generally considered to be growth, often (not always) involving the belief that the best way to achieve this was to develop better or new products, or more efficient production processes. From this the standard business ideology of the period, as detailed in the 1956 eminent classical study of that ideology *The American Business Creed*, was that corporate managers 'have four broad responsibilities: to consumers, to employees, to stockholders, and to the general public . . . Stockholders have no special priority' (Sutton et al. 1956: 64–65). By the 1980s it was no longer possible for top management of any major US corporation to



publically declare a view of stakeholder capitalism as the chairman of Standard Oil of New Jersey Frank Abrams had in 1951: ‘the job of management is to maintain an equitable and working balance among . . . . stockholders, employees, customers and the public at large’ (Smith 2012: 37). Notwithstanding that the earlier view was of course neither universally adopted by business nor fully implemented by those who did profess it, it is essential to understand the importance of the change to a corporate consciousness of ‘shareholders *über alles*’ in promoting a number of practices that were elements of neoliberalism’s overall increased aggression against labor.

Making the increase in a firm’s stock price the central measure of a firm’s performance, and in many cases tying top management’s compensation directly to it, had both direct and indirect negative effects on labor. Since such measures as reducing wage or benefits gains or sometimes even achieving their reduction, cutting the workforce or breaking or blocking unions, almost always caused an immediate increase in the stock price, the new governance paradigm increased such attacks on workers even as they sometimes also caused medium-term harm to profits.<sup>17</sup> Many of the indirect negative effects on workers operated through neoliberalism’s depression of the rates of growth and capital accumulation.<sup>18</sup> One example is neoliberalism’s much commented-on short-termism: the replacement of the previous longer-term corporate planning time horizon needed to pursue growth by the short-term time horizon involved in performance evaluation according to stock prices. A second example of neoliberalism’s indirect harm to workers through the depression of growth is its practice of boosting a stock price by increasing dividend payouts and stock buy-backs and then borrowing to invest because of the reduced retained earnings. This increases finance’s role in the reproduction and expansion of capital, resulting in a greater share of capital being tied up in finance and hence less in productive capital, again lowering the rate of accumulation (Bakir and Campbell 2010).

The shareholder-value argument that shareholder interests not only have priority over the interests of workers *qua* workers, but also that shareholder interests have priority over the interests of workers in their roles as consumers (product quality, product safety, and so on) or as members of the community where the enterprise operates (pollution, traffic congestion, and so on) is an important further aspect of neoliberalism’s increased aggression against workers. All these direct and indirect aspects of the shareholder-value paradigm of corporate governance are elements of neoliberalism’s increasingly aggressive attack on labor.

### **7.2.3 The Essential Indirect (not at the Point of Production) Attack on Labor by Making Government, the Broader State and General Social Attitudes (Still) Friendlier to Capital and the Very Wealthy**

It is a serious error when studying capitalism to think of capital's attack on the working class as occurring only, or even primarily, at the point of production. To the contrary, it is essential to always keep in mind the central role of the government and the broader state in all economic considerations. In section 7.1 we indicated that when capital decided in the late 1960s and early 1970s to qualitatively increase its aggression against labor, it quickly moved from its initial focus on the point of production to pressuring government to change laws (especially labor laws, taxes, and anti-trust and banking regulation) to strengthen it in the struggle, and from there to assuring the election of 'business-friendly' legislatures.

A plethora of organizations were either newly created or revitalized and reinvented as direct voices of business in the corporate mobilization.<sup>19</sup> Two of the most important of these organizations were the Business Roundtable and the US Chamber of Commerce. In June 1973 the informal March Group of CEOs of large corporations merged with the Construction Users Anti-Inflation Roundtable and the Labor Law Study Committee discussed above and took the name Business Roundtable. This rapidly expanded by 1997 to consist of 180 CEOs from the country's largest companies, and effectively became the political voice of big business. Spending \$136 million lobbying in 2012, the US Chamber of Commerce with more than 300 000 member businesses has been the largest business lobbying organization since 2000 in the US,<sup>20</sup> and additionally spends massively in supporting conservative candidates in elections. It provides the most important 'grass roots' support for business, from a network it has built which can provide tens or even hundreds of thousands of emails, telephone calls or letters to Congress in support of pro-capital legislation (Edsall 1984: 121–128; Vogel 1989: 198–199).

For the still broader component of the class battle that involves the structures and practices of the state beyond the government, and beyond that society's general attitudes toward capital (which capital always refers to as 'business'), capital created or revitalized a plethora of 'think-tanks'. Sometimes the nearly universally poor quality<sup>21</sup> (with a few exceptions) of the research and the reports of these think-tanks causes progressive commentators discussing the 50-year shift to the right in US politics to treat them as almost irrelevant. In fact, they played the important dual role they were designed for. On the one hand they turned out conservative research reports to put in the hands of congressmen fighting legislative battles, who until then had frequently been at a disadvantage as most scientific

academic reports supported the positions of the progressives. On the other hand, a second goal of these think-tanks was to make public opinion still friendlier to capital ('business') in order to create a very broad balance of forces that would allow them to push forward their legislative agenda of transformation. From the start of the business rebellion, the think-tanks developed outreach divisions whose job it was to disseminate the political messages of their 'research reports' to the public, by all channels possible, but in particular at first focusing largely on newspapers, and later on television and radio talk shows. A few of the more prominent and important of the many such conservative think-tanks are the Hoover Institution, American Enterprise Institute, Heritage Foundation (founded 1973), American Council for Capital Formation (founded 1973), Center for the Study of American Business (founded 1975; renamed as the Weidenbaum Center, 2001), Cato Institute (founded 1977), and a conservative think-tank that does careful economic analysis and therefore progressives often forget that it is part of the conservative think-tank complex, the National Bureau of Economic Research (Edsall 1984: 117–120).

It is broadly accepted among economic and political historians that capital accomplished a major step in its declared plan of creating a more business-friendly government with the election in 1976. Though the party composition of the Congress changed little, it was radically more pro-business than the preceding two Congresses, which had still been typical of the post-war-compromise period. With the election of President Carter, who was mostly perceived as a progressive, labor thought it would win some major battles it had long been fighting. Its three biggest concerns were labor law reforms, common situs picketing, and indexing the minimum wage to inflation and average wages. Unexpectedly to almost everyone, all three were stopped. The labor reform bill was passed by a healthy majority in Congress, but filibustered and killed in the Senate. The common situs bill had been passed by the last Congress but vetoed by Gerald Ford, and given the similar party composition of the new Congress and Carter's declared support, passage was assumed to be a sure thing. Its defeat showed the shift in the nature of this Congress, and more specifically the specific aggressive role (including monetary support) that the above-mentioned business associations played in both electing new pro-business legislators and winning over (buying) fence-sitting existing ones (Stein 2010: 183–190; Hacker and Pierson 2010: 128–131; Vogel 1989: 210–211). The change was permanent, and every subsequent Congress has been business-friendly as planned by capital. With the election of Reagan in 1980 (or arguably the political change in Carter in 1978), capital completed its planned creation of a business-friendly government with the capture of the executive branch.

### 7.2.4 Financialization

Financialization is arguably the most universally commented-on aspect of neoliberalism. Very broadly, ‘financialization’ can be defined as the expanded influence of finance on real production. Being more concrete, we can list the following seven highly interrelated central aspects of financialization: (1) expansion of the financial sector; (2) numerous fundamental changes in the operation of the financial sector; (3) an expanded role for financial operations in the non-financial sector (with this finance possibly coming from the non-financial sector itself); (4) an increased economic and political power of the financial sector; (5) a change in corporate governance to pay more attention to financial goals; (6) increased debt throughout the economy; and (7) asset inflation (including bubbles).

Liberal treatments of financialization usually focus on it as a struggle between financial interests and productive interests (which it partially is), and from that conclude that it is bad (at least in its excessive neoliberal form) for capital as a whole.<sup>22</sup> Neither the direct conflict of interests between finance and labor (personal debt, as one example), nor the indirect conflict between them through finance’s necessary role in the increased aggression of productive capital against labor (the shareholder-value paradigm of corporate governance, as one example), are considered.

A number of radical works, in addition to presenting excellent descriptions of the decades-long process of financialization, have implicitly addressed the conflict of enhanced financialization with labor by documenting the relative and absolute deterioration of labor’s condition over the course of financialization. There has been very little written, however, on the specific ways in which financialization has played a necessary enabling role for the real-side drive to lower the value of labor-power, neoliberalism’s *raison d’être*. Within the space limitations of this chapter we will here qualitatively describe this role of the last three of the seven aspects of financialization listed at the beginning of this subsection. These three aspects of financialization are also important parts of today’s popular dissatisfaction with the US economy.

The first aspect of financialization that we will discuss is the change in corporate governance. Its operation was already sketched in section 7.2.2 above. Our purpose in mentioning it again here is only to underline its two-sided relation to neoliberalism’s financialization of capitalism. Considering the relation in one direction, this new paradigm in which finance plays such a central role is one of the changes in capitalism that constitute its neoliberal financialization. Considering the relation in the other direction, without neoliberalism’s broad financialization of capitalism, theoretical as well as practical, the shareholder-value paradigm would

never have been developed and adopted by business. Particularly, we want to underline it as one example of the integral relation of financialization to many of the real-side attacks on labor: without financialization, many of the most important specific ways in which US neoliberalism increased its aggression against labor could not have occurred. Even most radical presentations of neoliberal financialization generally fail to include the shift to the shareholder-value paradigm of corporate governance as one of its important components.

The second aspect of financialization that we will discuss is the much commented-on explosion of debt. The hypertrophy of household debt served the increased attack on the value of labor-power in four different ways. First, what workers pay in debt service is fundamentally a reduction in their wages (in the extreme case, ‘debt slavery’). Second, debt-supported consumption helped to maintain a necessary level of effective demand in the face of the slowed growth of wage-supported consumption. The third way is less commented on by economists because of its political or sociological nature. The explosion of household debt reduced the immediate fall in the growth of labor’s purchasing power to within limits which labor would accept (even if unhappily) without the type of major fight-back that would end capital’s project. Fourth, the expansion of household debt combined with the expansion of financial sector debt (to be discussed next) to fuel the asset inflation (first stocks, then especially housing), the third aspect of financialization that we will briefly comment on below.

The first consideration on financial sector debt is that the sector’s net lending (net debt in credit market instruments as a percentage of GDP) grew twice as fast from 1980 to 2008 as it did from 1952 to 1980 (Duménil and Lévy 2011: 105). In the first instance, this enabled the increased household debt just discussed. Beyond that, the financial sector’s sources for funds to lend shifted even more dramatically to credit market borrowing. Gross debt of the financial sector in credit market instruments was 3 percent of GDP in 1952 and still only 20 percent in 1980, but 119 percent in 2008 (Duménil and Lévy 2011: 104). Much of that came from issuing asset-backed securities, which in turn drove inflation of the underlying assets. Expanded financial net debt (lending) was an essential aspect of the entire neoliberal financialization of capitalism, and expanded gross borrowing via issuing asset-backed securities made an important contribution to asset inflation and bubbles, that will be discussed next.

The third aspect of financialization that we will consider here is asset inflation and bubbles. Again, our concern here is not to describe the now well-known dynamics of bubbles,<sup>23</sup> but rather to sketch how this financial aspect was an integral part of neoliberalism’s central project of attacking the working class. It provides essential support to neoliberalism’s central

project in three different ways. The first two are the same as the second and third effects discussed above for increased household debt: the inflation of housing values cushioned the fall in income for that part of the working class that owned their home. As with debt, this helped neoliberalism to address both its problem of maintaining sufficient aggregate demand and its problem of sufficiently pacifying the working class to prevent a fight-back against the increased aggression. Asset bubbles, associated with high debt levels, reinforce several of these ways in which high debt levels serve the neoliberal system. The third way in which asset inflation and bubbles serve the goals of neoliberalism concerns neoliberalism's secondary goal of shifting the distributions of income and wealth in favor of the super-rich.<sup>24</sup>

### 7.3 CONCLUSION

In the mid-1960s US capitalism began to experience a decade-and-a-half crisis in the process at the heart of its existence, the accumulation of capital, indicated by a prolonged decline in its rate of profit. To reverse this fall, and secondarily to reverse the preceding three decades of increased income and wealth equality, the capitalists launched a process of restructuring of capitalism from its previous post-war form to what has become known as neoliberalism.

At the heart of the neoliberal project is a markedly more aggressive relation of capital to labor than existed in the previous post-war form of capitalism, aimed at driving down the value of labor-power to increase profits. This increased aggression occurs through many different channels. Among the most important channels are capital's increased direct resistance to wage gains, a change in the corporate governance model, and more aggressively using the government against the working class. The latter issue of the increasingly active use of the government against labor includes weakening labor's ability to fight both for direct wage gains and for its more general interests.

Financialization is universally viewed to be a centrally important aspect of neoliberalism. One of the theses of this chapter is that it must additionally be understood to be an important fourth channel for capital's aggression against labor. In addition, financialization must also be understood to have been able at times to provide short-term relief to the system from problems the neoliberal system generates for itself from the lowered wages, in particular inadequate effective demand and popular discontent with the stagnant wages.

For one-and-a-half decades beginning in 1983, US neoliberalism succeeded in increasing the aggregate rate of profit, though it never was able

to fully recover to where it was before the long fall that began in 1967. But subsequent to that, the empirical record shows nearly no net gain for the next decade leading up to the onset of the Great Recession, indicating that neoliberalism's continued intense aggression against the working class had lost its ability to deliver a continually improving rate of profit. Instead, the contradictions built into neoliberalism's basic structure on which its (capitalist) success had rested then came to the fore. By the middle of the first decade of the 2000s it was clear to many radical and some liberal economists<sup>25</sup> that the constantly expanding debt and the associated bubbles that were essential components of neoliberalism's short-term resolution of the systemic contradiction from its stagnant wages could not continue, and that at least 'a correction' if not a crisis was coming. But almost no one, even among the voices who perceived the intrinsic fragility of the system years ahead of others, could see that the result would be as severe as what in fact occurred.

The result of the crisis that emerged from the structure of neoliberalism in 2007 is that today US working people are more discontented with their economic system than ever before in the history of the country. Half have lost faith in the 'American Dream', and an additional quarter are not sure. Issues particularly disconcerting to them include their stagnant wages, the increased inequality, their deteriorating working conditions, the growing perception that their deteriorating situation is the source for the continued healthy improvement of the situation of the rich, their growing debt problems and the increased economic instability.

## NOTES

1. Valuable works by high-profile liberal authors include Krugman (2009, 2012), Stiglitz (2010) and Reich (2011).
2. See for example Baker (2008), Foster and Magdoff (2009), Albo et al. (2010), Rasmus (2010, 2012), Duménil and Lévy (2011), Vasudevan (2013) and Kotz (2015).
3. For a particularly reputable poll that regularly reports on this now fairly commonly commented-on belief, see the Rasmussen Reports, for example Rasmussen Reports (2013).
4. In a Rasmussen Reports (2009) poll, while a majority 53 percent of adults found capitalism better than socialism, a full 20 percent believed socialism is better than capitalism and 27 percent said they were not sure, a large shift from traditional US public opinion on capitalism. Even more indicative of how far these changes have gone, adults under 30 were evenly divided as to which system was better. These of course must not be interpreted as something more than they are. These are responses to polls, not people engaging in class struggle to change the social system. Beyond that, as always, one has to be very careful with the interpretation of responses to simple poll questions. As an example, the vision of 'socialism' by most US respondents favorably disposed to it would be social democracy, perhaps as it existed in Scandinavia several decades ago, certainly not the post-capitalist system that Marx and Engels meant by the term.

Nevertheless, the magnitude and importance of these changes in consciousness is clearly enormous.

5. A key aspect of the structure of US capitalism coming out of WWII was a compromise between capital and labor in that a number of fundamental issues would not be contested at that time, such as workers' complete exclusion from management decisions, the existence of unions, significant sharing of productivity gains, and so on. There was never a class 'truce' (Rosenberg 2003: 65; Campbell 2005:188).
6. Because we hold that the central project of neoliberalism has been to drive down the value of labor-power, we here discuss the important contribution to this from the effects of the changed governance paradigm. Since the changed governance paradigm itself involves substituting financial targets for real targets, we will also refer to this in the discussion on financialization.
7. It is widely understood by both radicals and liberals that 'recent changes in the tax system have [only] exacerbated the problem' of inequality, even when they are large such as the Bush tax cuts, and that the fundamental 'inequality developments are all based on market outcomes' (Mishel et al. 2009: 3). Detailed supporting evidence for the secondary (but still important) significance of taxes is presented in the work just cited.
8. Note that this general pattern of this graph, and in particular the fall of the rate of profit from the mid-1960s to the early 1980s and subsequent partial recovery, hold up if considered broadly for the whole private (corporate non-financial plus corporate financial plus non-corporate) sector as we do here, more narrowly for the corporate sector, or still more narrowly for the non-financial corporate sector.
9. Phase I of the 'wage-price controls' initiated 15 August froze wages. Phase II initiated 15 November ended the freezes and instituted a system in which all wage increases had to be approved by a Pay Board consisting of five members each from business, labor and 'the public'. By June 1973 when a 'price freeze' was reinstated in response to the rekindled inflation under Phase III deregulation, wage growth was considered to have been so reduced that it was not necessary to have any accompanying wage freeze. Real wage growth was in fact completely halted by 1973, though real wage and benefit growth was not stopped until 1979, as will be discussed further below (Rosenberg 2003: 185).
10. This was much more than simply one person's opinion. It was written at the behest of capital's most 'grass roots' organization, the US Chamber of Commerce, and distributed through its broad channels.
11. This well-documented sharp change in behavior by business toward government has many names in the literature, among them: business mobilization, corporate mobilization, business rebellion, revolt of the bosses and politicization of the business community. Its goal was to 'refine its ability to act as a class, [to submerge] competitive instincts in favor of joint, cooperative action' (Edsall 1984: 128). Four works that detail this changed behavior are Edsall (1984), Harrison and Bluestone (1988), Stein (2010) and Smith (2012: Chs 1–2).
12. For example, while the book was more focused on the related but different issue of wealth inequality, Wolff (1996: 28) also presented the family income of the top 5 percent from 1920 to 1990.
13. See for example Krugman (2009, 2012), Stiglitz (2010, 2012) and Duménil and Lévy (2011).
14. Note that while as indicated above capital reacted to its falling profits first by attacking labor for 'excessive wage gains', the wage gains in the period the attacks began were actually lower than in the preceding two decades. What had changed was that productivity growth had dramatically slowed, but successfully driving down wage growth could nevertheless of course improve capital's profits.
15. For a plethora of graphs of different data that all show this robust effect, type 'images for productivity and wages' into Google.
16. See Jacoby (2005) for a good short popular introduction to the issue; Lazonick and O'Sullivan (2000) for a lengthier article; Lazonick and O'Sullivan (2002) and Aglietta



- and Rebérioux (2005) for critical books; and Useem (1993) for a standard attempted defense.
17. This can occur through such well-known channels as increased worker antagonism to the company and the associated decrease in productivity, more rapid worker turnover with the associated loss of experience and increased training costs, and so on.
  18. It is not true that improved growth and capital accumulation will automatically benefit workers through some sort of 'trickledown'. That depends on the basis for the growth. The current better growth in the US than Europe is an example of few benefits of the growth in the US going to its workers, who typically are worse off than Western European workers. But the converse is generally true: if growth and accumulation decline, capital generally can pass a large part of the economic deterioration onto the workers.
  19. Besides the two organizations discussed, these included the Business Council, Committee for Economic Development, Conference Board, National Association of Manufacturers, National Federation of Independent Businesses and National Small Business Association, plus several thousand trade associations.
  20. Spending two to three times as much as the second-place business lobbying spender, which varied from year to year, since 2002.
  21. Typically these 'research institutions' will not release the data or methodology they claim to have used in their analysis – a prerequisite for any scientifically serious work – so that others can duplicate and either confirm or challenge the derivation of the results.
  22. Liberals of course suppress considerations of class and so refer to this as 'the interests of the economy'.
  23. Among the recent liberal and radical works that strongly emphasize the centrality of the housing bubble to US neoliberalism's structure in 2007 and describe the dynamics of the formation of such bubbles, see for example Baker (2008), Hudson (2012), Krugman (2009) and Vasudevan (2013).
  24. For stock market bubbles this benefit goes very disproportionately to the super-rich. The benefits from the housing bubble went further down the wealth scale to also significantly benefit the rich and even significant sectors of the broadly defined middle class.
  25. See Baker (1997) and Krugman (1999) as examples of the few who were discussing this by the end of the 1990s.

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