

**Global Neoliberalism and
the Contemporary Social Structure of Accumulation**

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Version 4

December 18, 2007

This paper was written for Terrence McDonough, David M. Kotz, and Michael Reich (eds), *Understanding Contemporary Capitalism: Social Structure of Accumulation Theory for the Twenty-First Century*.

1. Introduction

There is broad agreement among social analysts that capitalism changed in significant ways starting around 1980. However, there is disagreement about how to characterize those changes, what the key features of capitalism have been in recent decades, and what name to apply to the contemporary form of capitalism. In our view, the concept of "global neoliberalism" best captures the contemporary social reality.

In Europe liberalism has long referred to a stance that advocates limited government intervention in the economy. States were generally less active in seeking to manage capitalist economies before the Great Depression of the 1930s than they were after World War II. This does not mean that capitalist states followed a consistently Laissez Faire approach in the past. Chang (2002) has shown that states actively promoted industrialization in every major developed capitalist country during its period of early development. In late developers such as Germany and Japan the state was even more active than in the earliest cases. However, once industrialization was completed, in most developed capitalist countries the state played a relatively limited role in the economy prior to the Great Depression.

Following the Great Depression and World War II, a new social structure of accumulation (SSA) emerged in the capitalist world in which the state actively regulated the macroeconomy as well as key economic sectors, nationalized some industries in many countries, and provided a set of social programs that is often summed up as the "welfare state." The international economy was also managed by the most powerful capitalist states to a greater extent than had previously been the case. In the decades following World War II, the old liberal ideology, theory, and policy approach came to be viewed as outmoded, relegated to an early, "immature" period of capitalist development. Even the term "capitalism" was replaced by terms such as the "mixed economy."

No one expected what came next. Time seemed to go into reverse after around 1980, as the

dominant ideology, theory, and policy shifted back in the direction of the unfettered market. The emergence of the term "neoliberalism," to describe a new version of an old set of ideas, was not surprising. At first most analysts who were critical of the new (old) direction of change assumed that it was a temporary phenomenon, bred by a crisis of the old regime of state-managed capitalism. However, more than twenty-five years later it is apparent that the new direction was not a temporary lurch backward, but represented a new form of capitalism with some staying power.

We view neoliberalism as a coherent, multi-leveled entity whose core features include political-economic institutions, policies, theories, and ideology. We defer a discussion of the institutions of neoliberalism to sections 3 and 4 below, but some comment on its other dimensions is called for here. Neoliberal ideology is marked by glorification of individual choice, markets, and private property; a view of the state as inherently an enemy of individual freedom and economic efficiency; and an extreme individualist conception of society. The dominant theory is an extreme free-market version of neoclassical economic theory, associated with such names as Milton Friedman, Friedrich Hayek, and Ronald Coase.¹

Neoliberalism advocates a trilogy of policies known as liberalization, privatization, and stabilization. The first, liberalization, refers to freeing of markets and firms from state regulation, including the removal of barriers to movement of goods and capital (although not people) across national boundaries. Privatization refers to turning state enterprises over to private owners while also contracting out to private companies services that had traditionally been directly delivered by the state. The misnamed "stabilization" refers to a shift in monetary policy to focus solely on preventing inflation rather than promoting lower unemployment or economic growth. State fiscal policies are directed at reducing taxes on business and the rich while reducing or eliminating social programs.

A key point of contention surrounds the question of whether, under neoliberalism, the state reduces its intervention in the economy or rather just redirects it in ways that benefit capital. We

cannot enter fully into this debate due to space limitations. It is clear that the state in the neoliberal era has reduced or eliminated many programs that had directly benefitted the working class, while stepping up certain activities that directly aid capital, such as stricter enforcement of intellectual property rights. Perhaps the clearest case of increased state activism has been intervention in the class struggle to weaken the trade union movement, with British Prime Minister Margaret Thatcher's defeat of the Miners Union and U.S. President Ronald Reagan's breaking of the Air Traffic Controllers Union as seminal examples. The promotion of "competitiveness" has become the touchstone of state action in many areas of society.

However, in our view the anti-state ideology and theory of neoliberalism are not just window dressing. Among the state regulatory programs that have been dismantled in the neoliberal era are some that had originated, wholly or partially, in response to the demands of business. These include regulation or public ownership in such areas as power and transportation, which are key inputs for most of capital. Another example is anti-trust, which has been scaled back drastically, allowing free action by giant firms with market power, which most directly affects the firms that use their products. Public investment in the infrastructure necessary for capitalist profit-making has been reduced in the neoliberal era. It is clear that big capital, which had in an earlier era favored an active state, including state regulation and even public ownership in certain areas, came to prefer taking its chances with market forces despite the hazards for capital of such a path.

Some analysts prefer the term "globalization" to characterize contemporary capitalism. These two aspects of the contemporary era -- globalization and neoliberalism -- are closely interconnected. Neoliberal policies of free trade, the repeal of capital controls, as well as the overall "hollowing out" of the national state, fostered the globalization of production, trade, and class relations. Capital controls had emerged from class and popular struggles in the postwar era. Neoliberal policies promoted their elimination, and the resulting freedom of movement of capital changed the balance of

class forces decisively in capital's favor.

There is another side as well to the relation between globalization and neoliberalism. The degree of global economic integration increased in the later part of the postwar SSA, during the 1960s and early 1970s. As protected national markets in the major industrialized capitalist countries were breached by growing import competition, the previous support of big capital for a regime of active state regulation began to weaken. As big corporations faced increasingly intense competition that threatened their very survival, they turned against state regulations and costly social programs which now were viewed as hindering their ability to compete against foreign rivals (Kotz, 2002).

Thus, globalization fostered neoliberalism as well as neoliberalism promoted globalization. In our view, the nature of contemporary capitalism can best be understood as involving both the rise of neoliberalism and the emergence of the contemporary form of global economic integration. Furthermore, we will argue that neoliberalism is based more at the global dimension than at the nation-state dimension, in that the dominant institutions within major nation-states show greater variation in this era than in the previous SSA. Hence, in our view the term "global neoliberalism" best captures what we will argue is the contemporary social structure of accumulation.

2. Global Neoliberalism and the Social Structure of Accumulation Theory

Neoliberal restructuring began in the late 1970s, originating in the USA and the UK. Neoliberal ideology and economic theory began to gain influence in the USA as early as in the mid 1970s. Then in 1979, two years before Ronald Reagan took office, the Administration of President Jimmy Carter made a sharp turn to the right, suddenly sounding themes of deregulation of business, cutbacks in social programs, and with the appointment of Paul Volcker to the position of Chairman of the Federal Reserve, a shift in monetary policy toward a sole focus on stopping inflation. When Reagan took office in January 1981, the pace of neoliberal restructuring picked up markedly.

In the same year the Carter Administration shifted toward neoliberalism (1979), Margaret

Thatcher took office as British Prime Minister. She immediately led Britain onto the path of neoliberal restructuring. The previously mentioned successful attacks on the trade union movement by the two new leaders both took place soon after they took office.

The construction of the neoliberal institutional structure was much more rapid than had been possible for the postwar SSA, as the US case illustrates. Building the postwar SSA in the USA required building new institutions of state regulation of the economy, as well as achieving a class compromise between a militant labor movement and an initially uncompromising capitalist class. The start of efforts to build a new institutional structure in the USA began in 1933 when the Roosevelt Administration took office, but it took until around 1948 before it was possible to successfully establish the new SSA.² By contrast, establishing a neoliberal institutional structure requires mainly dismantling state regulatory structures and programs while establishing unchallenged dominance by capital over labor. These can be accomplished much more rapidly under the right conditions. While neoliberal restructuring began around 1979 in the USA, by the early 1980s it had been largely accomplished -- which was also the case in the U.K. as well. All of the key domestic institutions of global neoliberalism, which are discussed in section 5 below, had been established in the USA by the early 1980s.

It would be difficult to argue that global neoliberalism is a new SSA based on the conventional understanding of an SSA. The early SSA literature understood an SSA to be a coherent set of institutions that impinged on the capital accumulation process in a particular way, namely to foster rapid accumulation (Gordon, Edwards, and Reich, 1982, pp. 22-26). However, long-run economic growth in the neoliberal era has not been very rapid by historical comparison.

According to the standard version of SSA theory, each SSA has a birth, followed by a period in which it works effectively to promote rapid accumulation. Eventually the SSA stops promoting rapid accumulation, which ushers in a period of stagnation, known as the crisis phase of the SSA.

The period of stagnation continues until a new SSA is constructed to replace the old one, which restores a high rate of accumulation. Thus, each SSA has two periods, the first when it effectively promotes rapid accumulation and the second when it has become an obstacle to rapid accumulation.

Thus, according to the standard SSA theory, if global neoliberalism is a new SSA, then one should observe a more rapid pace of accumulation once global neoliberalism had been established, compared to the crisis phase of the previous SSA. Chapter 3 of this volume presents data suggesting that, in the USA, GDP growth has been slower in the neoliberal era than it was in the crisis phase of the preceding SSA.³ It is difficult to make a case that the neoliberal transformation accelerated economic growth in most parts of the world.

In our view, the neoliberal institutional structure should be considered an SSA, but not based on its effect on the economic growth rate. We agree with the proposal for revising the understanding of an SSA put forward in chapter 3 of this volume. That chapter argues that the early SSA literature never made a convincing case that each new coherent and long-lasting institutional structure in capitalism would necessarily promote accumulation that is rapid by some historical standard. Instead, such an institutional structure promotes profit-making and serves as a framework for the capital accumulation process, although the resulting rate of accumulation may be rapid or more moderate. Reinterpreting an SSA as a coherent, long-lasting institutional structure that promotes profit-making and serves as framework for capital accumulation, a strong case can be made that the global neoliberal institutional structure is an SSA. In the following sections, we will make that case by considering the key institutions that have arisen in the neoliberal era, on a global scale and within individual countries.

3. International Institutions of the Global Neoliberal SSA

Novel developments in the international economy include a significant increase in the international movement of capital, goods, and money and a geographical extension of capitalist

relations of production. Important here is the ability to fragment production across borders and to subsequently reintegrate the process through trade. From a Marxian perspective, a consequent transnationalization of class relations is of central importance. A multilayered system of transnational governance has emerged, including prominently the World Trade Organization (WTO) and the international financial institutions. Finally, the United States has become the sole remaining superpower in the world system.

The international transformations accompanying the emergence of the global neoliberal SSA are dominated by the globalization of the capitalist economy. This contention is of course controversial, with some observing that international activity is as old as capitalism itself and contending that the current emphasis on globalization is a dangerous myth promoted to discourage resistance to the implementation of neoliberal policies. This chapter argues that globalization and neoliberalism are indeed strongly related, but as important and mutually reinforcing constituent parts of the current social structure of accumulation.

Globalization in the contemporary period can be located in two separate but not entirely unrelated developments. The first is the lowering of barriers to the free movement of capital, goods and money. A key aspect of this has been the deregulation of capital movements as well as by increasing state hospitality to foreign direct investment. (Bryan 1995). Technological developments in information and communication technology have been important here as well as containerization and other innovations in transportation. This increase in capital mobility has taken place both at the level of physical productive capital and at the level of money capital through the massive intensification of international financial activity (Bryan 1995).

The most consequential result of this new found mobility is fragmentation of production into multiple and often distant components across borders and then reintegration of these components across borders into global production chains through both trade and the internal

logistical operations of transnational corporations. Each part of the production process can be located in a part of the world that is capable of carrying out that process in the most profitable manner. This ability to allocate production is achieved partly through sheer size and concentration of resources. A further essential condition of this kind of activity is the assembling of knowledge of local conditions in disparate parts of the globe. This is achieved through the creation of transnational blocs of capital through reciprocal ownership and joint venture agreements. The network organization celebrated by Manuel Castells (2000) plays a role here. Legal regimes established either internationally or in the separate states hospitable to the cross border movement of capital investment are also an almost indispensable condition here.

The second development is a dramatic geographical extension of capitalist relations of production. The collapse of the Eastern European regimes inaugurated a rapid transition to capitalism in the former Soviet sphere of influence. The post-Mao reforms and the integration of Hong Kong started a similar but slower and more measured transition process in China. These transitions have opened up vast supplies of raw materials, extensive investment opportunities, massive pools of cheap labour and large new markets for capitalist exploitation. These developments also mark the end of alternative sources of support, both economic and military, for less developed states. They also have a profound ideological significance in that they represent both the end of the Cold War and the end of an alternative development model for less developed areas. They also reinforce the sense that "there is no alternative" in the developed world.⁴

These developments are different from the earlier internationalization of the commodity circuit of capital which created an international division of labor. Since it is possible for commodity circulation to link the production of different modes of production, the circulation of commodities did not initially condition the globalization of capitalist class relations. Indeed pre-

capitalist modes of production may have been temporarily strengthened through access to international commodity circuits. The widespread relocation of capitalist production operations to previously undeveloped areas has now brought an end to this transitional era.

In conjunction with the global integration of production circuits, global integration of the money circuit has substantial consequences for the globalization of the specifically capitalist system because this globalization serves to transnationalize the capitalist class. This is the really radical significance of the globalization of finance. Globalizing the money circuit with the elimination of capital controls and the electronic linking of the world market integrates those who have a right to a portion of the surplus produced under capitalist relations of production. In the current period this transnationalization of the capitalist class is conjoined with the extension of capitalist relations into the former Soviet Union and China. This is accompanied by the global integration of the circuit of production including its extension to the less developed world. Thus a transnationalizing capitalist class is brought into relationship with a transnational working class. The neo-gramscian school in international political economy I (Cox, 1987, Gill and Law, 1988, Gill, 1990) and the Amsterdam school (Van Der Pijl, 1984, 1998, Overbeek, 2001, van Appeldoorn, 2004) along with the political sociologist William I. Robinson (2004) have studied the formation of this transnational capitalist class (TNCC) and the establishment of its hegemony in international relations.

There is another sense, however, in which the globalization of the money circuit creates the conditions under which the economy can be said to be globalized. If financial capital is mobile enough it can impose globalized norms of profitability in the regions in which it operates. In this way even strictly localized economic decision-making can be said to partake of the global economy in the sense that even these forms of economic calculation must be carried out with reference to global economic conditions. Increased trade liberalization has had

contradictory results, leading at the same time to increased competition on the product market and increased cooperation through reciprocal share ownership, joint ventures, tight subcontracting arrangements and the like (Castells, 2000, pp.77-215). A merger wave has consolidated capitals across borders, leading to the creation of ever larger corporate entities.

The globalization of capitalist production and class relations inevitably raises the question of the creation of transnational institutions to govern these economic relations. William I. Robinson (2004) has theorized the emergence of a transnational state (TNS). Unlike the traditional members of the nation-state system, the new institutions of transnational governance do not concentrate sovereignty over a particular territory. These institutions are layered and overlapping, existing at multiple geographical scales. It must be noted that they are often created by states through agreements and treaties. Nevertheless they assume some limited authority over these same states, sometimes through the control over the advantages of market access, and sometimes through the exercise of ideological hegemony and influence.

The World Trade Organization is perhaps the paradigmatic example of these developments. Created by treaty between its member states, it is able to enforce trade rules and try violators in a quasi-judicial way, imposing sanctions and fines. Other institutions of this kind include formal organizations like the OECD and the G8. Informal organizations like the World Economic Forum and the Trilateral Commission and various NGOs are also participant and increasingly numerous. These institutions issue advice and influential policy prescriptions. Regional organizations like the European Union and NAFTA have been constructed. At the same time traditional nation-states still play an essential role, enforcing neoliberal prescriptions and pursuing “competitiveness”. After all, capitalism requires political entities that can exercise coercion when needed, through such instruments as armies and prisons. Unless a true global capitalist state emerges which both has such capabilities and is recognized as a legitimate

sovereign state, nation-states will continue to be necessary to the reproduction of capitalism. The degree of “stateness” of the developing new complex of global institutions is contentious as it incorporates and combines state sovereignty with other forms of governance.

Aside from the WTO, the most prominent of these transnational organizations are the international financial institutions including the IMF and the World Bank. These organizations have been responsible for the imposition of structural adjustment programmes on developing countries in return for loans and aid. These structural adjustment programmes consisted of the imposition of a package of neoliberal policies including opening the economy to foreign trade, floating exchange rates, privatizations, deregulation, an end to subsidies and reductions in social spending. The imposition of these policies marked a sharp transition in many states and an end to more active import-substitution development policies.

The final international institutional change involves the reinstatement and extension of US hegemony. Despite their increasing economic power, the military capacities of Germany and Japan have remained repressed and underdeveloped. There is little evidence of a political desire in Europe to create a full military counterweight to the United States. The "Japan who could say no" has evaporated in the face of economic stagnation. Indeed, at the moment trilateralism appears to have been little more than a futurologist speculation. Thus, the collapse of the Soviet Bloc left the US as the only remaining military superpower. This increase in relative political and military strength has led to territorial advances in the US sphere of influence. Starting in the 1990s the U.S. has been maneuvering for political influence and control of raw materials in the central Asian and Caucasian former Soviet Republics. Post September 11, the U.S. led the occupation of Afghanistan and Iraq. Tensions are growing with Iran. An American empire has been further consolidated. Of most significance is the apparently permanent and already well-consolidated thrust to the east in Europe with the extension of NATO and the enlargement of the

European Union.

4. Domestic Institutions of the Global Neoliberal SSA

Several of the domestic institutions of global neoliberalism involve the capital-labor relation and the nature of the labor process. Others involve the role of the domestic nation-state in the economy. A third group involves the nature of capital under global neoliberalism. We will consider these in turn.

A prominent feature of global neoliberalism is the very noticeable weakening of the trade union movement in most countries. This changed the process through which wages and working conditions are determined. In the previous period, collective bargaining between trade unions and employers typically determined wages and working conditions in much of the economy. The change in the neoliberal era is often described as a shift to "market-determined" wages and conditions. However, that term obscures more than it reveals. The relative bargaining power of labor and capital is always the main determinant of changes in wages and working conditions.⁵ A more accurate description of the new process of their determination is that power has shifted almost entirely to the employer. In the neoliberal era, employers are relatively free to determine wages and working conditions, constrained only by employer concerns with obtaining qualified workers. The institution of employer-determined wages and working conditions is of course favorable for profit-making.

Second, in the previous SSA there was a system of labor segmentation, in which some jobs were in the "primary sector" and others in the "secondary sector." Primary sector jobs had relatively high pay, good fringe benefits, pay that rose with seniority, and significant job security, in contrast to jobs in the secondary sector. A part of the primary sector jobs consisted of unionized jobs, although some were non-union managerial, professional, and technical jobs. In the neoliberal era, many of the primary sector jobs were transformed into jobs resembling secondary sector jobs under the previous SSA. Pay declined, benefits became less favorable or disappeared, pay increases

became less certain, and job security disappeared. Temporary and contingent workers grew rapidly as a share of the work force. Employers imposed such conditions in many sectors of the economy, under the banner of "labor market flexibility," an ironic name since the desired flexibility was only for those on one side of the labor market, namely employers, but not for workers. Employers gained the "flexibility" to treat workers as they wished, while workers lost the ability to resist such treatment.

Third, new production systems were introduced in the neoliberal era. In place of the relatively rigid, yet low-cost, mass production technology of the previous SSA, many industries shifted to such new systems as flexible specialization and just-in-time production.

Fourthly, a shift in production location patterns, known as "spatialization," arose in the period of global neoliberalism (see chapter 6 of this volume). Taking advantage of improved communication and transportation technologies, capital became much more effective at using the threat of movement of production, or the actual movement of production, from one location to another as a means to more effectively control labor. While there has always been a tendency in capitalism for firm location to shift from high-wage to low-wage regions and countries, this tendency became much more pronounced in the neoliberal era. It has become a major means of establishing capital's power to control wages and working conditions.

Many of the domestic institutions of global neoliberalism involve the role of the state. We will identify six such institutions. First, the state renounced the use of Keynesian aggregate demand management techniques which had been aimed at achieving faster economic growth and a low level of unemployment. In the previous SSA, in most of the industrialized capitalist countries, both fiscal and monetary policies were generally directed to that end.⁶ This contributed to a low average level of unemployment in the developed capitalist countries during that period. In the neoliberal era states renounced stimulatory fiscal policy, instead aiming for a balanced budget, while monetary policy

was redirected toward the sole aim of preventing inflation. This approach was justified by the new neoliberal economic theories, which held that neither fiscal nor monetary expansion could bring faster growth or lower unemployment in the long run but would instead just produce a higher inflation rate.⁷

Second, there has been a sharp reduction in the "social wage" provided through the state, by cutting or eliminating such programs as guaranteed retirement pensions, unemployment compensation, disability insurance, and educational subsidies. Individual workers have had to rely on their own means to a much greater extent to finance such needs.

Third, there has been a shift in the distribution of the financial burden of paying for public services. Taxes on capital and on the rich have been reduced, shifting the burden to wage-earners and other groups.

Fourth, there has been a shift in the provision of a wide range of public services from state agencies and state employees to private companies operating under state-funded contracts. While accepting the principle that there exist "public goods" that cannot simply be sold by profit-seeking firms to individual users, private for-profit firms have been allowed into the process of providing such publicly-funded goods. This has taken place in a wide range of public services, including transportation, social welfare programs, education and job training, meal provision in public agencies and public schools, incarceration of prisoners, and various coercive services including guards, police, and military functions.⁸

Neoliberal ideology, which holds that states are inherently inefficient while capitalist firms are optimally efficient, provides the justification for such contracting out of public services. At the same time, the hunger on the part of influential corporations for the opening of new sectors to profit-making assures a hefty lobbying push for the introduction of such programs. It is difficult to understand why a private firm, which must pay dividends to its shareholders as well as very high

salaries to its executives, should be able to deliver the same public service more cheaply than a well-run government agency. If there are any cost savings, it appears that they stem from the lower wages, inferior benefits, and worse working conditions of the private sector workers who actually deliver public services under such contracts. Such cost savings are not economic efficiencies but rather a shift of income from labor to capital. However, neoliberal economic theories regard the relatively good wages, benefits, and working conditions in the state sector as "monopoly rents" extracted by "greedy" public sector workers and their unions from the hapless taxpayers, with the connivance of elected officials. According to that view, turning public services over to private companies, and the resulting shrinkage of the state workforce, returns wages to their appropriate "market-determined" level.

Fifth, natural monopolies and sectors considered central to national economic welfare and progress, which had typically been subject to state regulation or state ownership in the previous SSA, were deregulated and privatized. In the various industrialized capitalist countries, this has applied to such sectors as transportation, communication, power, key metals (such as steel), military hardware, and financial institutions.⁹ Neoliberal economists argued that regulation or public ownership of natural monopolies generates more costs than benefits, with the former including holding back technical progress that would otherwise erode the natural monopoly. For key sectors, they argued that state regulation or ownership had no justification, since private ownership and market forces always take the best care of national economic welfare. As in the case of contracting out public services, a hidden agenda was the driving down of workers' wages and benefits in sectors where workers had previously had significant bargaining power. As these sectors were deregulated and privatized, a new harsh competition quickly drove down wages and benefits, particularly in the transportation sector.

Sixth, the neoliberal era has seen the implementation of more repressive policies of social

control (see chapter 5 of this volume). In the USA, the prison population skyrocketed, as sentences for the types of infractions committed by poor and working people were extended. These policies, while hardly libertarian, are necessitated by neoliberalism through the rise in social dislocation, tension associated with rising levels of inequality, and the exclusion of marginalized populations and groups from the political process.

The third category of institutions of global neoliberalism involves the nature of capital. First, the nature of competition among large corporations changed. Such competition had been co-respective and carefully regulated in the previous SSA. While large firms competed over market share, they eschewed price competition, which would undermine the profits of the industry as a whole. Global neoliberalism saw the breakdown of such co-respective behavior among large firms, replace by unrestrained, cut-throat competition. Sharp price competition returned to the world of large corporations.

Second, the process of selection of CEOs of large corporations changed. Previously CEOs had usually been promoted from within the firm, from among the long-serving managers who had risen within the company. This practice was replaced by the development of an external labor market for CEOs, through which the top spot is usually given to an outsider. This market-based process for selecting CEOs fostered a ramping up of CEO pay, as large corporations competed for top executives. In addition to contributing to the growing income inequality of neoliberalism, this change profoundly affected firm behavior. Instead of CEOs with careers that were intimately tied up with the firm, now the typical CEO expected to stay with the firm only for a short while before moving to a higher-paying CEO job elsewhere. This promoted a shift in focus from long-run productive investments, which often take a long time to bear fruit, to gimmicks that can boost the firm's stock price over the short-run at the expense of doing what long-run success requires.

Third, the relation between financial and industrial capital changed in global neoliberalism.

In the late 19th and early 20th centuries, banks established a powerful position of control over many non-financial corporations in a number of leading capitalist countries (Kotz, 1978). In the post World War II SSA, in many countries, including the USA, financial institutions were closely regulated by the state in a way that compelled them to play a subsidiary yet supportive role in capital accumulation by non-financial capital. Under neoliberalism still another relation between financial and non-financial capital emerged, characterized by a high degree of independence of financial capital from non-financial capital. In the global neoliberal SSA, financial capital broke free from its close relation to non-financial capital and shifted to pursuing profits through purely financial activity. At the same time, many non-financial corporations began to engage directly in financial activities. This process had led to the introduction of the term "financialization" to describe this feature of contemporary capitalism.¹⁰

As chapter 3 of this volume argues, a common thread running through most, if not all, of the institutions of global neoliberalism is the relatively full dominance of capital over labor in this SSA. The changes in the role of the state reinforced the power of capital over labor. The heightened competition among capitalists tends to put pressure on employers to drive down wages.¹¹

5. Why Global Neoliberalism Should be Considered an SSA

In order to consider global neoliberalism an SSA, we must be able to make a case that it is a coherent, long-lasting set of institutions which promotes profit-making and forms a structure for the capital accumulation process. That neoliberalism has been long-lasting is now clear, since it has tenaciously held on for more than a quarter-century. It is also clear that global neoliberalism is a coherent set of institutions. All of the key institutions are consistent with neoliberal ideology and neoliberal theories, which promote and glorify markets, private property, and individual choice, while vilifying collective actions, collective provision, and collective choices which tend to predominate when trade unions and states play a more active role.

Global neoliberalism promotes profit-making in several ways. First, its institutions increase the bargaining power of capital relative to that of labor. This results in slower wage growth and avoidance of the costs of providing good benefits and good working conditions. It also enables capital to exercise greater control over the labor process. Second, deregulation of business provides greater freedom of action for capital in pursuit of profits. The social costs of the pursuit of profit, which may be charged to capital in a regime of state regulation of business, can be pushed onto society as a whole. Third, the necessary social costs of maintaining society in general, and capitalist society in particular, which require government programs which must be paid for through taxes, are shifted from capital to labor and other groups in society. Fourth, whole new sectors have been opened to profit-making activity through privatization, deregulation, and contracting out of public services. Fifth, the geographic scale of profit-making activity has been greatly expanded by opening the entire world to relatively free movement of goods, services, and capital. This generates economies of scale and specialization.

There is empirical evidence that global neoliberalism has been favorable for profit-making. In the US economy, the rate of profit declined in the later part of the previous SSA, starting in the mid 1960s. By the mid 1980s the profit rate had begun to recover, rising to its highest level since the 1960s by the late 1990s. The profit rate in Germany, France, and the UK followed a similar pattern (Dumenil and Levy, 2004, p. 24, figure 3.1).

As the institutional structure of capitalism since the early 1980s, global neoliberalism has formed the structure within which capital accumulation has taken place and it has shaped that process in particular ways. There are several ways in which global neoliberalism has shaped capital accumulation.

Global neoliberalism has affected the channels through which funds are obtained for capital accumulation. In the previous SSA, a large share of accumulation was financed from retained

earnings of large corporations. Under neoliberalism big corporations have paid out a large share of profits in the form of dividends, stock buy-backs, and payments to high executives. Hence, accumulation has become much more dependent on external financing. In line with the growing marketization of the economy and the growing separation of financial from non-financial capital, this has meant, not mainly bank loans based on traditional banker connections, but the raising of funds for accumulation from the capital market.

Neoliberal theory argues that market-based allocation of capital is more efficient than re-investment of retained earnings. However, that assumes that outside investors somehow possess knowledge about the real economic prospects of firms, which is not realistic. Outside investors follow fads and are easily taken in by skillful promoters and unscrupulous burnishers of corporate account books. This gives to the capital accumulation process a highly speculative, unstable character.

While the high rate of profit provides the funds for capital accumulation, cycled through financial markets back to the source of those profits, there remains the problem of how the growing output resulting from accumulation can be sold. By constricting the growth of wages and state spending, global neoliberalism makes the sale of increased output dependent on some combination of rising luxury consumption, debt-financed working class consumption that rises faster than wages, and/or purchases of means of production based on inflated expectations of future profits and demand growth. In the neoliberal era the new rich do not hide their lavish spending on luxury goods, unlike the less showy ethic of the rich in the previous SSA. The waves of speculative bubbles, which are associated with neoliberalism, have the effect of promoting exaggerated expectations about the growth of profits and demand in the future.¹²

On the level of theoretical analysis, it is not clear that global neoliberalism would tend to promote a rapid rate of capital accumulation, by comparison to earlier SSAs or even by comparison

to the crisis period of past SSAs. On the one hand, a high rate of profit tends to promote a high rate of accumulation, since the profit rate is the incentive for accumulation and profits are the ultimate source of funds for accumulation. On the other hand, a high rate of profit does not guarantee a high rate of accumulation. Profits are not automatically used for accumulation. They may instead flow into various forms of consumption, or they may flow into financial investments that do not ultimately contribute to real accumulation. There are various ways in which the institutions of global neoliberalism tend to limit the pace of capital accumulation. These are discussed in section 7 of chapter 3 in this volume, involving several features of neoliberalism: a tendency toward insufficient aggregate demand growth, macroeconomic instability, unrestrained competition which discourages long-run productive investment, and an independent financial sector which tends to divert funds from productive investment.¹³

In section 2 above we referred to evidence found in chapter 3 of this volume that GDP growth in the US economy has been no faster in the neoliberal era than it had been in the crisis phase of the previous SSA. Table 1 shows that, among 6 leading capitalist countries, the GDP growth rate has been slower in the neoliberal era than it had been in the crisis phase of the preceding SSA in 5 of the 6 countries. It is noteworthy that the fastest GDP growth in the neoliberal era has been in China, which, while it has liberalized its economy over time, has not adopted the neoliberal model. Instead, it has retained a combination of state ownership and planning with marketization and the pursuit of private profit.

6. The Uneven Spread of Neoliberal Institutions and Globalization

In the postwar SSA all of the capitalist countries, despite some differences in their particular domestic institutional configuration, had institutions that embodied in some form the state-regulated character of that SSA as a whole. In much of Western Europe the domestic SSA had a social-democratic character, while in Japan the SSA was more corporatist. The USA had still a different

type of state-regulated SSA, based on what has been called "military Keynesianism." In the developing countries, import-substitution industrialization regimes were common. Despite the differences, all involved strongly statist domestic institutions, and all fit in well with the international-level institutions of that SSA.

In this respect the global neoliberal SSA is qualitatively different from the era that preceded it. The development of neoliberal institutions has been quite uneven across countries. The most complete introduction of neoliberal institutions has taken place in the formerly state socialist countries of central and eastern Europe. As they dismantled their old system and rapidly installed capitalism, most of them thoroughly adopted new neoliberal institutions, particularly Russia and some of the other former Soviet republics. The working class in those countries had been completely demoralized and deactivated, and it was unable to put up any effective resistance to neoliberalism.

Some developing countries were also forced to undergo substantial neoliberal restructuring as they came under the sway of the IMF and World Bank in the 1980s and 1990s. This was particularly prevalent in Latin America.

However, in some countries resistance from the working class and other groups has prevented the complete neoliberal restructuring of domestic institutions. Among the developed capitalist countries, the shift in the neoliberal direction was greatest in the US and UK, where working class resistance was largely defeated, and a major neoliberal restructuring was possible. However, the state retained some regulatory and social welfare roles from the previous SSA.

In some major Western European countries, a kind of "social neoliberalism" emerged, in which some features of neoliberalism were installed, including privatization, a reduction of state regulation of business, and a neoliberal shift in fiscal and monetary policy, but the welfare state was only marginally reduced and trade unions retained significant power at work. In some of the Nordic countries, the support for social democracy from the working class and other groups has prevented

its dismantling. Social democratic institutions have largely remained in place, with only marginal shifts in the direction of neoliberalism.

A number of Asian countries largely resisted the shift toward neoliberal domestic institutions. Japan has made only very partial moves toward domestic neoliberal restructuring, despite periodic talk about undertaking "reforms." While the previous lifetime job guarantee system has weakened and a previously unknown level of unemployment emerged, the corporatist model has remained relatively intact. Several Asian countries developed rapidly in the 1980s-90s with a state-directed development model, including South Korea, Indonesia, Malaysia, Taiwan, and Singapore.

Perhaps the most important exception to the neoliberal trend has been China, which in 1978 started its break with state socialism through a gradual replacement of central planning and state property by market forces and private enterprise, along with an opening to the world capitalist market. However, contrary to the neoliberal model, in China the state has retained control over the development process, through such means as activist macro policy aimed at rapid growth, a high rate of public investment in infrastructure, state ownership of the major banks, a well-defined industrial policy, and state regulation of trade and capital movements. The main features of neoliberalism introduced in China have been the dismantling of social welfare programs and state-funded education and the privatization of most, although not all, state enterprises.

The uneven spread of neoliberal domestic institutions, which is explained by differing particular histories in each country, is an important feature of the global neoliberal SSA. This variation even has certain benefits for profit-making and capital accumulation under this SSA. The global organization of production, which characterizes global neoliberalism, benefits from local differences so that different phases of capital accumulation and different stages of production can be apportioned to the most profitable locations. Head offices and research and design facilities can be located in countries whose social democratic institutions provide a suitable environment for them,

while moderately labor-intensive production can take place in the wide-open economies of Eastern Europe with their educated yet relatively cheap labor. The most labor-intensive production can be shifted to China, where wages are very low while the regulatory state keeps order and builds all the necessary infrastructure. In addition, China's state guided development brings very rapid growth, which helps fuel global growth while supplying cheap consumer goods and much-needed financing for US capitalism.

It appears that the relation between the global and national aspects is different in the contemporary SSA compared to the previous SSA. The postwar state-regulated SSA can be thought of as a series of national state-regulated SSAs which were linked internationally by an appropriate set of international institutions, such as the Bretton Woods system and a particular form of US hegemony. By contrast, the global neoliberal SSA exists in its most pure form at the transnational level, where neoliberal principles became fully dominant in such institutions as the WTO, IMF, and World Bank.¹⁴ Global neoliberalism is a transnational structure with local structures nested within it, with variation in the extent to which local structures conform to the neoliberal model.

7. Contradictions of the Global Neoliberal SSA

No SSA under capitalism lasts forever. Every SSA has contradictions, which eventually tend to sharpen. The intensification of the contradictions of an SSA eventually leads to a structural crisis. During the period of crisis, conflict among groups and classes is the means by which the old SSA is dismantled and something new is put in its place. The possible sequels are a new SSA within capitalism, or the supersession of capitalism and the building of an alternative system.

The contemporary global neoliberal SSA has a number of contradictions, which could play a role in its eventual demise. First, the institutions of neoliberalism tend to create a problem of inadequate aggregate demand, which at some point could lead to a major crisis of overproduction. The great imbalance in bargaining power between capital and labor tends to promote an

accumulation path in which wages stagnate while productivity rises, resulting in rising profits but a potential problem in the realization of those profits. The renunciation of expansionary fiscal policy closes off one avenue for resolving this contradiction. This potential realization problem can be postponed by rapidly rising accumulation and/or consumption demand that rises faster than wages.

If the potential realization problem is postponed by rapidly rising accumulation, eventually this will create a disproportion between productive capacity and consumer demand. Hence, consumer demand that rises faster than wages plays an important role in the accumulation process under global neoliberalism. This is seen in the rapid expansion of debt during each economic expansion. This has reached its most extreme condition in the world-wide economic expansion that began in 2002. This expansion has been fueled by growing borrowing by US households to finance their consumption, aided by a speculative housing bubble, and also by a huge flow of financial investment from China, Japan, and Russia into US capital markets. If debt levels grow so high that further debt expansion is not possible, a major economic crisis could result (Kotz, 2008).

Second, the deregulation of finance, and its shift to full independence from productive accumulation, has led to an increasingly speculative and fragile financial structure in world capitalism, particularly in the USA. This opens the possibility of a major global financial crisis at some point. Fears of such a crisis have been voiced in response to the end of the housing bubble in the US in 2007 and the associated problems with mortgage-backed securities.

Third, this SSA has relied on the US dollar as the global reserve currency, which is undermined by the persistent huge trade and current account deficit of the USA associated with its role as consumer of last resort. This contradiction could lead to a collapse in the value of the US dollar at some point, which could bring about a major world financial and economic crisis.

Fourth, capital's dominance over labor, and the resulting degradation of the condition of the working class and other popular groups, could under certain conditions, such as a severe economic

crisis, lead to major outbreaks of popular protest against global neoliberalism. The huge rise in inequality under neoliberalism, the increase in insecurity, and the decline of public services, while everyone sees the fattening of the super-rich partly at the public trough and the gaining of unprecedented incomes by unproductive financial wheeler-dealers, may at some point spark a serious rebellion.

Such a rebellion appears to have already emerged in some countries in South America, where the effects of neoliberalism on ordinary people had been particularly extreme. A wave of left-wing electoral victories in South America has led to a variety of national efforts to depart from the neoliberal model. In a few cases the new leadership has made some moves toward abandoning not just neoliberalism but capitalism itself.

Finally, the unplanned and chaotic type of economic growth under global neoliberalism threatens to run into constraints from the natural basis of economic activity. This has found two expressions. First is the rising prices of natural materials, which could lead to a major global economic crisis. If one or more key natural material enters a period of actual decline in supply, as some have suggested is approaching for petroleum, then global neoliberalism, with its rejection of any planning of economic activity, would be found inconsistent with the emergent need for a rapid and large-scale reorganization of the energy basis of the global economy. Such a reorganization would require significant economic planning, which in turn would require a sharp turn away from neoliberalism.

The second expression of this problem is the development of global warming from the chaotic expansion of economic activity. This problem threatens to bring huge social costs of private economic activity to bear on the world population. The growing demand that the world face and resolve the threat of global warming may require a shift to a different economic model from that of global neoliberalism.

Table 1

**Growth Rates of Real Gross Domestic
Product for Selected Countries**
(Annual average percentage rate of growth)

Country	1950-73	1973-79	1979-2000
France	5.0	2.8	2.1
Germany	6.0	2.4	2.1
Italy	5.6	3.5	2.0
Japan	9.2	3.5	2.7
UK	3.0	1.5	2.3
USA	4.0	3.0	3.1

Note: The third period in table 1 goes through the year 2000 since that was the last business cycle peak year in the global economy.

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Notes

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1. This theory has come in various versions, such as Monetarism, rational expectations theory, and new classical economics, but all have shared the same basic assumptions and a vision of the capitalist "free-market" economy as an optimally self-regulating entity.
 2. Kotz (1994, p. 66) argues that the core institutions of the postwar SSA in the U.S. -- peaceful collective bargaining, US hegemony, and militarization of the economy -- had been established by 1948.
 3. It is possible to find data that show rapid economic growth during the neoliberal era in the US economy, but only by considering the neoliberal SSA to have begun in the mid 1990s. Beginning in 1995, a speculative bubble in the US stock market propelled five years of rapid economic growth. However, there is no compelling reason to date the start of the neoliberal SSA in 1995, apart from the rapid growth that began at that time. It is tautological to decide the date of a new SSA based on the start of rapid growth -- it should be dated based on an analysis of institution creation. Furthermore, growth in the US economy has not been rapid since the collapse of the stock market bubble in 2000.
 4. The European Communist Party ruled states did not formally begin a transition to capitalism until 1989-91, and China did not clearly become capitalist until around the early 1990s, dates that are somewhat later than those for the formation of the other major institutions of the neoliberal SSA. However, by the early 1980s China had begun its integration into the capitalist world market and the Soviet Union and its European CMEA partners had also begun to significantly reorient their economies toward trade with, and loans from, the capitalist world.
 5. Other factors also affect [the] wages and working conditions, including the level of development of a country's economy.
 6. In some countries during that period, if the unemployment rate fell so low that the resulting rise in labor's bargaining power began to seriously erode profits, the state would shift gears and use aggregate demand management to slow the economy and restore capital's ability to extract profits (Boddy and Crotty, 1975).
 7. There is some controversy about the large fiscal deficits in the USA in the 1980s and the 2000s. Some view them as a cynical use of Keynesian expansionary techniques to expand the economy to improve the Republican Party's re-election chances. In our view, the large fiscal deficits of those two periods were driven by other several other factors: 1) supply side theories, which held that tax cuts would stimulate private investment; 2) a determination to shift income to the rich through tax cuts; and 3) growing military expenditures in both periods.
 8. In 2007 the Bush Administration even proposed contracting out some federal tax collection responsibilities. However, the resulting charges of a return to Medieval "tax farming" practices appeared to bury that proposal.
 9. In some developing countries even the water supply has been privatized under pressure from the international financial institutions. In the developed countries a similar result has been achieved through persuading millions of people to buy water in bottles, at a price higher than

that of gasoline, instead of getting it from the tap at a fraction of the cost.

10. Some analysts regard financialization, and a supposed rise of financial capital to a dominant position, to be the chief feature of contemporary capitalism (Dumenil and Levy, 2004).

11. Chapter 3 argues that the central feature of liberal SSAs -- of which the contemporary SSA is one example -- is the resolution of the capital-labor contradiction through relatively full capitalist dominance over labor. By contrast, other SSAs, referred to as "constrained market SSAs" such as the postwar SSA, resolve that contradiction through compromise between capital and labor.

12. The high profits and the pronounced shift of income toward wealthy households create a large pool of investable funds relative to productive investment opportunities. This gives rise to speculative asset bubbles, as the excess funds find their way into such assets as corporate securities and land.

13. The cited discussion chapter 3 concerns liberal institutional structures in general.

14. When the World Bank's chief economist, the renowned Joseph Stiglitz, began to criticize some aspects of neoliberalism in the late 1990s, he was unceremoniously fired from his post.