context Keynes could not have anticipated. They pumped billions of dollars into their ailing economies and created millions of public-sector jobs—a million per year in the core between 1971 and 1983. Unable to generate the tax revenues to pay for all this, the dominant states ran persistent deficits, effectively printing money to pay their way—all of which further fed the fires of inflation.[76]

By the late 1970s, it was clear that Keynesianism could not get capitalism back on track. In fact, persistently high inflation was fuelling the very thing that worried Keynes in the first place: uncertainty. Keynes had argued, after all, that uncertainty about the future is what causes capitalists to save rather than invest. Yet, soaring inflation made the future ever more unpredictable. Not only did it cause them to worry that a given investment project might turn unprofitable, should inflationary costs wipe out gains; it also encouraged speculative investments in commodities—such as oil or gold—that looked set to rise faster than the general price level. Throughout most of these inflationary years, this was a sensible wager. In fact, the price of gold ripped through the stratosphere. From $35 an ounce in 1971, it leapt above $300 in the summer of 1979 before leaving earth's atmosphere that winter—at which point it was above $800 an ounce, or 2,280 percent higher than in 1971.

The gold mania of 1979–80 was also the moment that the inflationary spiral would be broken—as a result of the "Volcker Shock" administered by the Federal Reserve Bank of the United States. Though few knew it at the time, this was the turning point, the end of the inflationary crisis and the birthplace of global neoliberalism.

The Volcker Shock and the Birth of Neoliberalism

By the end of the 1970s the Keynesian era was over.[77] And it took a Keynesian to deliver the death blow. For Paul Volcker, elevated in August 1979 to the position of chairman of the U.S. Federal Reserve Bank, had always been a Keynesian rather than a monetarist.[78] Yet, he was first and foremost a pragmatic banker, and as the new Fed chairman he was about to do what conservatives and monetarists most dearly desired: deliver a monetary shock

that would break the inflationary spiral.[79] In so doing, he plunged the world economy into a deep slump, kick-started a tidal wave of job losses, and created a Third World debt crisis. But these were small costs to pay in order to restore corporate profitability. Volcker had been clear from the start that this would require a decline in the American standard of living, though he might have added that the people of the Global South would soon have much worse inflicted on them.

To be sure, neoliberalism had its dress rehearsals before Volcker took the stage. Following the brutal overthrow of Chile's Socialist president, Salvador Allende, in 1973, the country's military dictator recruited a group of right-wing economists, known as the "Chicago boys," to restructure the Chilean economy. Liberals they may have called themselves, but the Chicago boys were only too happy to rush into the arms of a general who had ordered the murders of thousands while crushing democratic and civil rights in the process. Indeed, Friedman and his mentor Friedrich von Hayek had no qualms endorsing the brutal repression.[80] Collaborating with the IMF, these neoliberal economists, known as monetarists, set about privatizing public enterprises, opening the country up to foreign multinational corporations, and allowing these firms to ship as much wealth as they wanted out of the country. As these things often do, it looked good in the early going, until the 1982 debt crisis brought it all crashing down, as unemployment rocketed to 30 percent amid a 15 percent drop in GDP. To be sure, these Chilean initiatives were not the only neoliberal moves that preceded Volcker. So too did tight monetary policy by Germany's central bank and Britain's newly elected government led by Margaret Thatcher. Volcker was not the first, therefore, but he was the one who mattered most. For the U.S. still set the pace for the world economy. And Volcker was about to prove the point.

Not that it was smooth sailing for Volcker and his crew. They were improvising, flying by the seats of their pants, as they struggled to contain rising prices and wages. Consequently, the Fed had as many misses as hits with monetary policy in 1979–80, a lot of the misses proving that central banks are actually incapa-

ble of controlling the supply of money.[81] But once Volcker had twigged onto a mechanism that would produce sharp interest rate hikes, the hits came fast and furious. In no time, the Fed pushed short-term interest rates from 10 to 15 percent. When that proved insufficient to do the job, the central bank propelled rates steadily higher until they peaked at an astounding 20 percent. Meanwhile, the *real* interest rate—the rate of interest minus the rate of inflation—moved from negative territory in the mid-1970s to close to 9 percent. By keeping interest rates extraordinarily high for nearly three years, Volcker succeeded in knocking inflation down to 4 percent, while also knocking the floor out of the economy.

The key to the Volcker Shock was to reduce economic activity, and drive down prices, by making it prohibitively expensive to borrow money. Inevitably, as tighter credit reduced consumer spending and rising interest rates made it expensive to borrow, corporations sharply cut back investment. Indebted firms, facing huge interest payments, went broke in massive numbers. And ordinary consumers stopped taking out mortgages and car loans, put off by exorbitant rates. The economy was in the grips of a powerful contraction. For fully seventeen months the U.S. economy shrank, making 1980–82 the most prolonged slump since the 1930s. Manufacturing output fell by more than a tenth and the official unemployment rate went above 11 percent for the first time in forty years. The return of mass unemployment would on its own have had a traumatic effect on workers. But the U.S. government was intent on ratcheting the fear factor much higher. In August 1981, two years into Volcker's term at the Fed, President Ronald Reagan broke a national strike by air traffic controllers, firing all of them and crushing their union in the process. The shock of mass unemployment was thus joined to the trauma of union busting. And Volcker left no doubt as to the strategic importance of destroying the union: "the most important single action of the administration in helping the anti-inflation fight was defeating the air traffic controllers' strike," he later commented.[82] The reason for this is simple. It is an axiom of capitalism that "fear is the best motivator," as the author of *Profits Aren't*

Everything, They're the Only Thing puts it.[83] After all, if workers feel a reasonable degree of confidence, they will more powerfully resist the bullying and authoritarianism of employers and managers. Fear—for their jobs, their livelihoods, and the well-being of their families—typically serves to dampen rebellious impulses. And Volcker and company were in the business of instilling fear.

The results were incontrovertible: real wages in the United States dropped more than 10 percent between 1978 and 1983, and they continued to fall even as the economy recovered—a point to which we return shortly. Indeed, just to put the last nail in the coffin of the inflationary period, Volcker drove up interest rates again in 1983 and 1984, after a brief respite in response to Mexico's crisis. His successor, Alan Greenspan, later known as the easy-money man, actually continued Volcker's crusade and kept raising interest rates throughout the late 1980s, pausing only briefly in the wake of the stock market crash of 1987, before resuming his predecessor's course. The battle had been won. Wages and inflation were tracking down; profits were tracking up. The result, as Doug Henwood notes, was that "the central-bank-led class war succeeded in more than doubling the profit rate for nonfinancial corporations between 1982 and 1997."[84] The neoliberal expansion was clearly underway.[85]

This claim is surprisingly controversial, however, especially on the intellectual Left. As I have noted, there is a markedly unhelpful tendency in many radical analyses to treat the entire forty year period since 1970 as a "crisis," a "long downturn," or even a "depression."[86] Yet, as we shall see, such assessments miss the mark by a country mile. They either ignore, or thoroughly downplay the dramatic social, technical, and spatial restructuring of capitalist production that occurred across the neoliberal period, all of which significantly raised profitability, and led to a volatile but nonetheless real process of sustained capitalist expansion, much of it centered on East Asia. Grasping some of the central features of that process is essential to understanding the current crisis.

Because these claims are contentious, I want to spend some time documenting them. For, only if we have a clear picture of

ciers and consumers. These transformations massively increased the sphere of purely financial transactions and contributed to a financialization of capitalism in its neoliberal phase—and in so doing laid down major fault lines that were sure to crack in the event of systemic pressures. Although I touch on these issues in this chapter, I shall treat them in a sustained way in chapter 4.

* * *

Building on this account of the neoliberal expansion and the unique crisis tendencies it created, I propose to examine this era in terms of three interconnected processes. Various analysts have done good jobs of highlighting one another of these processes. But rarely have they been brought together in an integrated analysis that captures the (contradictory) dynamics of the neoliberal expansion. So, while I treat each of the following developments discretely, it is vital to keep in mind that they are interconnected aspects of a total process. There is, moreover, a temporality to their interconnection, as industrial restructuring in the North tended to precede the full-fledged emergence of a new center of accumulation in East Asia. In what follows, I address these trends under the following headings: 1) labor's defeats and the new inequality; 2) industrial restructuring and lean production; 3) "primitive accumulation," China, and the spatial reorganization of global capitalism. In subsequent chapters I shall round out this analysis by investigating four other key aspects of our historical moment: financialization; privatization, enclosure, and accumulation by dispossession; finance and the new imperialism; and, finally, destruction of "infrastructures of dissent" and the remaking of consumer culture. But for now, let us turn to the three processes I have identified.

The Neoliberal Era 1: Labor's Defeats and the New Inequality

If the defeat of the air traffic controllers' union, PATCO, was a decisive turning point in the United States, it had its ugly parallels elsewhere. From the late 1970s on, governments and employers around the world launched a coordinated offensive to roll back union power, labor rights, and employees' wages, benefits, and

conditions of work. Workers resisted these attacks, sometimes heroically. But the ruling class was bloody-minded and union leaderships were generally too passive and compromising to prevail. And where employers could not defeat workers on their own, governments turned to legislation, the courts, the police, and prison terms to do the trick. Mandatory wage restraints and trampled union rights became the orders of the day. The U.S. government's firing of striking air traffic controllers was part of a widespread revival of tactics only rarely deployed during the Great Boom: mass firings, jailings, and large-scale use of police to break strikes. In Canada, the government imposed compulsory wage controls in 1976 and then two years later jailed the president of the postal workers when his union, for a decade the most militant in the country, struck in defiance.[97] Similar methods would be employed on a much larger scale, supplemented by massive use of scabs and police, when Margaret Thatcher defeated Britain's National Union of Mineworkers in 1985, or in Bolivia the following year when troops were used to crush the tin miners union, long the backbone of labor radicalism.

In other cases, governments did not intervene so directly, instead aiding and abetting employers as they put in the boot. In 1978, German workers struck against employer plans to downgrade jobs, introduce new labor-displacing technologies, and lay down management-friendly work rules. Bosses retaliated with a massive lockout of two hundred thousand engineering workers, ultimately breaking the back of the resistance and forcing unions to sign a highly regressive contract in 1979. A year later, it was the turn of Italian unions, as workers at Fiat, following a defeated thirty-three-day strike, bowed to company demands for twenty-three thousand layoffs. As one major union after another fell to the employers' offensive, labor movements beat a desperate retreat. Union density—the percentage of workers represented by trade unions—declined dramatically and persistently in the U.S., Canada, U.K., France, Spain, and elsewhere, often calamitously in Latin American countries such as Chile, Peru, Bolivia, and Ecuador.[98] Management introduced tiered wage structures, with new recruits often making markedly less than those hired

earlier, while "flexible" employment arrangements—part-time and limited contracts in particular—deprived workers of full-time wages and benefits. All of these trends contributed to painful drops in working class incomes. In the U.S. real wages were 15 percent lower by 1993 than they had been in 1978. Things were much worse in large parts of the Global South.

Chile was arguably the first neoliberal experiment, as we have seen. So, it is not surprising to learn that the compression of working class incomes was especially acute there, with workers' share of national income plummeting from 47 percent in 1970 to a mere 19 percent by 1989. The same pattern applied across the region, with huge hits to workers' incomes in countries like Ecuador, Peru, Argentina and Mexico.[99] Indeed, Mexico, which has enjoyed the "benefits" of a free trade agreement with Canada and the United States, saw wages for the best paid workers collapse 18 percent while the minimum wage plummeted 34 percent. Today, after fifteen years of free trade, 80 percent of Mexicans live in poverty and 0.3 percent of the population controls 50 percent of national wealth.[100]

Not surprisingly, sharp falls in wages in one country after another quickly produced the same pattern, boosting profits and the incomes of the rich. Indeed, one persistent trend across the neoliberal period has been for the distribution of wealth to get ever more unequal. Data from the United States are especially instructive in this regard. Detailed studies, which may actually underestimate the polarization, show a drop of 9 percent between 1973 and 2002 in average real incomes for the bottom 90 percent of Americans. Over the same period, incomes for the top 1 percent rose by 101 percent, while those for the top 0.1 percent soared by 227 percent. More recent updates demonstrate that household inequality in the U.S. has continued to worsen. And a recent report from the Organization for Economic Cooperation and Development charts similar trends, though not always quite so stark, for most major capitalist societies.[101]

But income statistics alone understate the real dimensions of inequality. Those fully emerge only when we factor in ownership of corporate wealth—stocks, bonds, and other corporate

financial instruments. Whereas in 1991, the wealthiest 1 percent of Americans owned 38.7 percent of corporate wealth, by 2003 their share had jumped to 57.5 percent.[102] Similar trends are evident at the global level. In a world in which more than two billion people struggle to survive on $2 per day or less, the planet's wealthiest people—represented by the 16.5 percent of global households with $100,000 or more to invest—watched their assets soar 64 percent, to $84.5 trillion since 2000. The vast bulk of that wealth resides in the portfolios of millionaire households. Although they comprise just 0.7 percent of the globe's total households, these millionaire households now hold over a third of the world's wealth.[103] And it is these households, particularly in the conditions of renewed over-accumulation of capital since the late 1990s, who have ramped up demand for interest-bearing financial assets—a point to which we return in chapter 4.

As the United Nations *Human Development Report* indicates, the neoliberal period has seen an incredible increase in social inequality, which doubled in intensity between 1960 and 1990, and continued to rise afterwards. Table 2.2 shows the pattern clearly.

Table 2.2 – Share of world income received by the richest 20 percent of the world's countries relative to the share of the poorest 20 percent of the world's countries

1820 – 3:1	1960 – 30:1
1870 – 7:1	1990 – 60:1
1913 – 11:1	1997 – 74:1

Source: United Nations Development Program, *Human Development Report 1999*, 38

What is worse, these are national averages so they actually underestimate the real degree of inequality. Were we, for example, to take the richest people in the Global North and compare their incomes with those of the poorest billions in the Global South, the differences would be truly astronomical.[104]

When Paul Volcker set out in 1979 to insure that the American standard of living would decline, he could not have dreamed how successful he and his neoliberal cronies would be. Thirty years later, therefore, we live in a staggeringly more unequal world. And a decade of austerity will only make it more so.

The Neoliberal Era 2: Lean Production and Industrial Restructuring

As union resistance was pulverized, employers had carte blanche to reorganize work processes, introduce new technologies, downsize workforces, and speed up production in the quest for higher profits. And this they did, notwithstanding some radical commentary that suggests very little restructuring of capital has occurred since the crises of 1971–82.[105] In fact, wherever we look we find evidence of major downsizings, scrapping of old plants and equipment, and dramatic reorganizations of work processes and technology. In the first stage of restructuring the pace was set by widespread destruction of capital, as plants were closed and workers sacked:

> Britain lost 25 percent of its manufacturing industry in 1980–84. Between 1973 and the late 1980s the total number of employed in manufacturing in the six old countries of Europe fell by seven millions, or by about a quarter, about half of which were lost between 1979 and 1983.[106]

Similar processes were at work in the U.S. Taking the case of the domestic steel industry, we find that more than 350,000 jobs were lost by the end of the 1980s as large mills were shut or downsized and new technologies and work processes introduced. Deploying state-of-the-art techniques, new mini-mills—such as Birmingham Steel, Nucor, and Oregon Steel—established cost-advantages, viable accumulation regimes, and enhanced market share, as a radical transformation of the industry occurred.

Throughout the Great Boom, world steel output rose continuously, from 112 million tons to 704 million tons, almost all of it in the capitalistically developed world. Then, beginning with the recession of 1974–75, a contraction set in at the capitalist core, whose steel industries quickly lost about 100 million tons of capacity in the course of the first wave of downsizing. Throughout the 1980s, plant closures and layoffs continued, and employment at traditional integrated steel mills in the U.S. plummeted from over 520,000 in 1974 to 168,000 fifteen years later. Meanwhile, steel production kept rising in newly industrializing countries such as

South Korea and Brazil. By the early 1990s, a global reorganization of the industry was well underway, a process that intensified during the 1990s. Between 1997 and 2002, for instance, twenty-nine steel companies went bankrupt in the U.S. at the same time as a wave of buyouts and mergers reduced the number of firms. By the year 2000, the combined steel output of Brazil, China, South Korea, India, Taiwan, and Mexico was almost three times as large as U.S. production. Moreover, the technical foundations of the industry had been transformed, as huge, integrated mills using basic oxygen furnaces were replaced by mini-mills deploying newer technologies, from continuous casting to electric arc furnaces. And where large mills remained, like the Hilton Works of the Steel Company of Canada (Stelco) in Hamilton, Ontario, new processes of continuous casting were introduced while the workforce was more than chopped in half, plunging from over thirteen thousand workers in 1980 to barely five thousand sixteen years later.[107] Most decisively, across the globe, geographic relocation, wage-cutting, down-sizing, and new technologies contributed to a halving of the cost of making flat-rolled steel.[108]

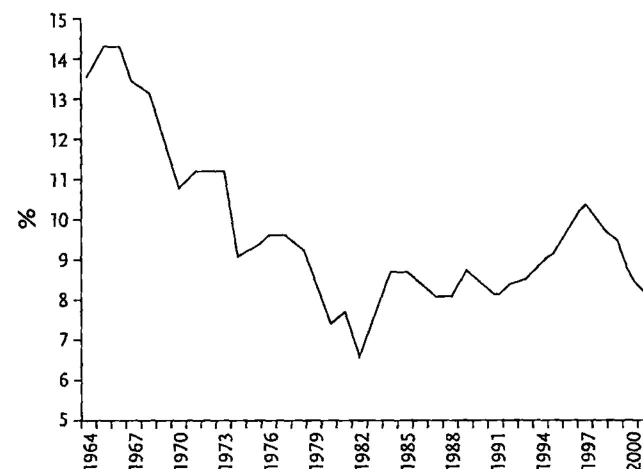
The steel industry illustrates the basic dynamics at work in the transition to lean production systems during the neoliberal era. It is not simply that jobs went to the South, though in some industries this clearly happened. It is more that a severe process of restructuring occurred that involved an enormous downsizing of workforces and "leaning" of production systems everywhere. Geographic reorganizations, sometimes within the bounds of a nation-state, as in the flight of plants from the northern to southern United States, were one part of this picture. While industry-specific changes may have been in play in the case of steel, we observe a common pattern combining new technologies with old-fashioned employer tactics of speed up, contracting out, and undermining of unions. Production was made more "flexible" largely by making labor so—by tiering wages, altering shifts, increasing insecurity and precarious employment (casual, part-time, and contract work), and enhancing employers' power to hire, fire, and reorganize work. New technologies thus combined with old forms of precariousness to boost labor productiv-

ity. As Kim Moody observes, "Real flexibility in lean production lies primarily in the combination of information-age technology and worker experience with archaic forms of work organization, such as contracting-out, casualization, old-fashioned speed-up, and the lengthening of working time."[109] It was the concentrated offensive against the organized power of the working class that made possible these processes of downsizing, work reorganization, and technological renovation. No longer constrained by union power, capital pushed down real wages, shed labor, broke shop floor organization of workers, introduced robotics, computerized production systems, and other new technologies, and sped up and intensified work processes.

The cumulative effects of these processes were profound. In the first instance, they involved a sustained and significant rise in the rate of exploitation—the gap between workers' output and the value of their wages. Detailed calculations by Simon Mohun on the U.S. economy indicate, for instance, that after 1979, "The value of labor power fell for the remainder of the century (as productivity grew but hourly real wage rates for production workers did not), so that the rate of surplus value (the ratio of money surplus value to the wages of productive labor) increased by about 40%."[110] It was not just that wages were pushed down, therefore; it was also that speed-up and work intensification compelled workers to produce more per hour. And in conditions of labor retreat, such productivity gains were claimed almost entirely by capital, a trend that began in the late 1970s and kept intensifying across the neoliberal period. In fact, U.S. Bureau of Labor Statistics data reveal that labor productivity rose by an average of nearly 2 percent per year from 1979 to 2007, while real hourly compensation for workers edged up just a bit more than 1 percent a year.[111] Over a period of nearly thirty years, this involved a huge allocation to capital of new wealth created by labor. In Marx's terms, it signified an enormous increase in the rate of exploitation (or rate of surplus value). And rarely was the increase in surplus value greater than in American manufacturing, where during the 1990s productivity rose twenty times faster than wages.[112]

These processes were crucial to the sustained revival of profit rates after 1982, which is captured in figure 2.1.

Figure 2.1 Pre-Tax Rate of Profit in the U.S., 1964–2001



Source: Simon Mohun, "Distributive Shares in the US Economy, 1964–2001," *Cambridge Journal of Economics* 30, no. 3 (2006): 348.

As figure 2.1 shows, the average rate of profit rose persistently from 1982 to 1997, reversing the trend line of the previous eighteen years (1964–82). It then began a downward movement in 1997, which seems to have been reversed for a time after 2001, though data here must be treated with care given the widespread phenomenon of fictitious profits based on financial manipulations and accounting fraud.[113] But there can be little doubt that the doubling of the U.S. profit rate between 1982 and 1997 that Henwood identified was very real. Concerted attacks on workers' power and intense industrial restructuring, hallmarks of neoliberalism, did boost corporate profitability after the recessions of 1974–75 and 1980–82—not to the levels of 1950–64, to be sure, but substantially enough to move the global economy out of crisis for a quarter-century. Equally important as the defeat of labor and industrial restructuring in this regard was the geographic reorganization of world capitalist production.