



All the King's Horses ...



Neoliberal Capitalism, Its Crisis, and What Comes Next

The Second Part of a Two-Part Article

BY DAVID M. KOTZ



Neoliberal capitalism had, at its core, a basic contradiction: Rising profits spurred economic expansion, but at the same time the source of the rising profits—the suppression of wage growth—created an obstacle to expansion. With wages stagnating, and with government spending rising more slowly, who would buy the output of an expanding economy? For a while, this simmering “demand problem” was forestalled, as risk-seeking financial institutions extended credit to the hard-pressed families whose wages were stagnating or falling. Debt-fueled consumer spending made long expansions possible despite the stagnation of wages and of government spending. Big asset bubbles provided the collateral enabling families to borrow to pay their bills.

The economic crisis of 2008 marked the end of the ability of the neoliberal form of capitalism to promote stable economic expansion. In the wake of the massive housing-bubble collapse and financial crash, the previous debt-and-bubble-based growth machine cannot be revived. The banks continue to find new speculative ventures and corporate profits remain high, but this process no longer brings normal economic expansion.

Change: Reactionary, Reformist, or Radical?

So far, the powers that be, in the United States and elsewhere, have been pursuing “austerity policy” as a way of doubling down on neoliberalism, which has greatly rewarded the “one percent.” However, continuing along that path promises only unending stagnation. Long-lasting stagnation is destabilizing to >>

capitalism, tending to promote the growth of political movements—on the left and the right—demanding major political and economic change. This prods big business to consider some restructuring of capitalism to overcome stagnation and its dangerous consequences.

There is some evidence of the beginnings of big business consideration of economic alternatives. In January 2015, Lawrence Summers, a close ally of



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Wall Street who promoted bank deregulation in the 1990s as treasury secretary in the Clinton administration, coauthored a major report calling for significant institutional changes—including measures to reduce inequality and to redirect large corporations toward the pursuit of long-run gains instead of short-run profits. (See John Miller, “The ‘Secular Stagnation’ Debate,” *D&S*, May/June 2015.)

Big business is not the only actor on the stage. If history is any guide, we can expect that various groups and classes will become increasingly active in the years ahead, pushing for changes that would further their own interests. While significant change seems highly likely, the precise outcome cannot be foretold in advance. Three possible directions of change can be identified—reactionary, reformist, and radical. Which one emerges will depend on the relative strength and determination of the potential beneficiaries of each kind of change.

If labor and other popular movements remain relatively weak, as they have after several decades of demoralization and demobilization under neoliberalism, big business will likely drive change in the reactionary direction. This could take the form of a statist and nationalist form of capitalism without any capital-labor compromise.

The neoliberal labor market and the current weak position of labor would remain, while the underlying problem of inadequate growth of demand would be solved via growing state spending for military purposes and perhaps infrastructure and technological innovation. Nationalism is the likely dominant ideology of such a transformation, focusing the attention of the 99% on building national economic and military strength and away from the limited economic benefits for them of this reactionary direction of change. Two prominent right-wing intellectuals, Francis Fukuyama

Neoliberal Capitalism, Financialized Capitalism, or Globalized Capitalism? Which description of contemporary capitalism offers the greatest insight?

~ Why Not “Financialization”?

Some economists view “financialization” as the best overall concept for understanding contemporary capitalism. Financialization can best be understood, however, as an outgrowth of neoliberal capitalism. The rise in financial profit, which gave the financial sector a place of growing importance in the economy, came quite late in the neoliberal era. Only after 1989 did financial profit begin a long and steep climb, interrupted by a fall in the mid-1990s, and then a sharp rise to a remarkable 40% of total profit in the early 2000s. It was only in the 2000s that financialization fully blossomed. At that time, commentators noted, Wall Street was also beginning to draw a large percentage of elite college graduates.

The “financialization” of the U.S. economy in recent decades, important though it is, was itself driven by neoliberal restructuring. The neoliberal institutional structure, including financial deregulation, enabled financial institutions to appropriate a growing share of profits. Furthermore, financialization cannot account for many of the most important economic developments in contemporary capitalism. It cannot explain the dramatic shift in capital-labor relations from the capitalists’ acceptance of compromise to their renewed striving to fully dominate labor. It cannot explain the sharp rise in inequality. And it cannot explain the deepening globalization of capitalism.

and William Kristol, have recently suggested a move in that direction. Such a reactionary program would not only spell continuing bad conditions for American workers but, with further military buildup and nationalist posturing, a growing danger of even greater inter-state conflict than we have seen in recent times.

If the labor movement, and other popular movements, gain in strength, then a second, reformist, direction of change would become possible. This might entail another capital-labor compromise. A form of capitalism like the previous regulated capitalism, of the post-World War II period, could potentially resolve the current economic crisis by bringing a more balanced growth of profits and wages. It would also likely include a growing state role focused on infrastructure, innovation, education, social provision, and environmental protection. However, change of that type has never come from a “forward-looking” big business class. It would become a serious possibility only if the labor and progressive movements revive and are able to force compromise on the capitalists. Unless big business sees a mortal threat to capitalism, it is not likely to be willing to compromise with labor.

A reformist direction of change, while better for the majority than the reactionary direction, would still pose serious problems. The previous capital-labor compromise of the 1940s to the 1960s let out some groups, notably many women and many

African Americans, and it is not clear today if all of the 99% could be accommodated under a renewed compromise. Also, such a reformed capitalism is not a promising system for avoiding disastrous climate change. Reformed capitalism would require—and give rise to—relatively robust economic growth, which would make it difficult and perhaps impossible to avoid the looming climate-change tipping point. While reformed capitalism would likely include measures aimed at environmental protection, large private companies tend to be



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effective in resisting government measures that limit their freedom of action in pursuit of profit.

If labor and other popular movements gain strength, however, that would also open the possibility of a move beyond capitalism. Continuing stagnation, along with the other problems that derive from capitalism, are likely to lead many to question whether capitalism can any longer meet the needs of the



Why Not “Globalization”?

Like financialization, “globalization” has been presented by some analysts as the best framework for understanding the contemporary form of capitalism. Capitalism has, indeed, become significantly more integrated on a world scale in recent decades, including the emergence of global value chains and truly global production processes in some sectors.

The degree of globalization of capitalism has gone through ups and downs in history. Capitalism became increasingly globalized in the decades prior to World War I. Then the cataclysm of two world wars and the Great Depression reversed the trend, and capitalism became less globally integrated over that period. After World War II, the process of globalization resumed, gradually at first. Around the late 1960s, globalization accelerated somewhat, as measured by world exports relative to world GDP. After 1986, the trend turned more sharply upward. Thus, in contrast to financialization, which emerged later than neoliberalism, the globalization process in this era began before neoliberalism emerged, although globalization accelerated in the neoliberal era.

However, many of the most important features of capitalism since 1980 cannot be understood or explained based on globalization any more than they can be on the basis of financialization. Globalization cannot fully explain the rapidly rising inequality in the contemporary era, which has been quite extreme in the United States, yet milder in some other countries, such as Germany, that are more integrated into the global economy. Globalization cannot explain the financialization process and the rise of a speculatively oriented financial sector, nor can it explain the series of large asset bubbles. Like financialization, globalization has been an important feature of neoliberal capitalism, but it is not its defining feature. >>

majority and to consider whether an alternative system might be able to do so. That would mean a renewal of interest in socialism, which is the only comprehensive alternative to capitalism. There is evidence of a possible shift in that direction in public opinion surveys since 2009, which have consistently found that, in the United States, between one-third and 45% of



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people under age 30 have a positive view of (an undefined) "socialism." The high level of popular support for Sen. Bernie Sanders (I-Vt.), a self-declared democratic socialist, in his campaign for the Democratic presidential nomination is also suggestive. In Latin America, a number of countries, such as Venezuela, Bolivia, and Ecuador have elected leaders pledged to build some form of socialism. New leftist political movements in Europe, such as Syriza in Greece and

Podemos in Spain, have been challenging the austerity policies that have generated mass unemployment, (although the Syriza government elected in January 2015 has so far been unable to jettison the austerity program forced on Greece by the big powers in the European Union). Given the many negative features of twentieth-century Soviet-style socialism, advocates of a new socialism stress the need for democracy and widespread popular participation in both economic and political decision-making. Change in this direction would be driven by the conviction that production for the profits of the minority can never adequately meet the needs of the majority, which instead requires an economy system that places the human needs of all at its center. Unlike capitalism of any variety, such a system in a highly developed country would not require a relentless increase in the production of goods, and therefore could build a sustainable relationship to nature. A socialism based on democracy, participation, cooperation, and sustainability could bring a promising future for all. Perhaps, in this period of pressure for institutional change, such an alternative path might emerge—but only if the 99% become active, organized, and determined to chart their own future. **D&S**

DAVID M. KOTZ is a professor of economics at the University of Massachusetts Amherst and the author of *The Rise and Fall of Neoliberal Capitalism* (Harvard University Press, 2015).

~ Neoliberalism as the Key Concept

Both financialization and globalization are fundamental tendencies in capitalism. Financial institutions have an ever-present tendency to move into speculative and risky activities to gain the high profits from such pursuits. Even more so, globalization is a tendency present from the rise of capitalism, since the capital accumulation drive always spurs expansion across national boundaries. Then why do these phenomena characterize one era of capitalism more than another?

Both of these tendencies can be obstructed for long periods of time, or released, depending on the prevailing institutional form of capitalism. Financialization was held in check from the mid-1930s to 1980 by financial regulation, and globalization was hindered from World War I until the 1960s by the world wars, the Great Depression, and then the state regulation of trade and international investment under the post-World War II Bretton Woods monetary system (see Arthur MacEwan, "Dollar Dominance," p.29). The neoliberal restructuring starting in the late 1970s can explain all of the key economic developments in contemporary capitalism, with the processes of financialization and globalization—released by neoliberal capitalism—forming a part of the account.

These differences in analysis are important, since they represent different views of the basic characteristics of the current era of capitalism and different diagnoses of the current crisis. Proposals to overcome the crisis that focus only on reining in financialization or reconfiguring globalization would be insufficient unless part of a restructuring that replaces neoliberalism with something new.