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This chapter presents a brief review of the origin and development of Neoliberal globalization, and evaluates economic performance in the Neoliberal era, first in the world economy, then, in more detail, in the US economy. The conclusion is pessimistic: unless a more effective framework for global integration than Neoliberalism is designed and put in place, it is highly unlikely that the basic economic needs of the majority of Koreans, Japanese, and Americans, including access to housing, will be adequately met.

Overview of the Transition from the Golden Age to the Global Neoliberal Regime

The qualitative shift in economic structures and policies that took place between the pre-WWII era and the so-called Golden Age of capitalism (or GA) in the three decades after the War constituted, to borrow a concept from sociologist Karl Polyani, a *Great Transformation* of our economic way of life from a primarily market-guided economy to a state- or socially-managed economy. The shift from the GA to the global Neoliberal Regime (or NLR) in the past two decades might be seen as a *Second Great Transformation*, this one a counter-revolution that takes us 'back to the future,' toward a new form of market-led economic system. These two Transformations raise the most important and ideologically charged question in economic theory -- which kind of system offers ordinary people the best chance of economic security and prosperity? This chapter tries to at least outline an answer to this crucial question.

Against conventional wisdom, I argue that the transition to the NLR was not technologically predetermined. Neoliberalism was a deliberate political and economic *choice* made in the late 1970s and early 1980s by economic elites around the globe in pursuit not of the general welfare, but of their narrow individual and class interests. To date, as I show below, their choice has been a great success for them, but something between a disappointment and a disaster for the majority of the world's people. Fortunately, Neoliberalism was not the only possible institutional framework for greater global integration available at the time it was chosen, and it is not the only framework available to us now.

The Golden Age of Modern Capitalism: 1950-1973.

The GA was an era of exceptionally fast and widely shared growth, built on the foundation of a qualitative increase in the economic power of society over markets, exercised primarily, though not exclusively, through the state. Markets were, of course, important almost everywhere in the world. This was not an era of central planning, but rather a time of socially embedded or regulated markets, and of state guidance of the broad contours of economic development. This dramatic shift from economic evolution as the unplanned outcome of blind market forces to conscious social choice as the regulator of economic activity took place in response to the catastrophic failures of the previous market-led system-- the Great Depression and World War II. After the War, powerful popular movements demanded change, and the elites of the capitalist world lived in fear of the likely political consequences of a return to depression. War-time economic planning demonstrated that state guided growth was feasible. And the Keynesian 'revolution' in economic thinking not only showed that instability, rising inequality, financial panics, and even depressions were 'normal' products of unregulated market systems, but it also provided the first widely accepted theoretical framework that government officials could use to guide their efforts to regulate economic development in capitalist economies.

The degree of societal control over economic processes and outcomes varied across countries. In North America and Europe, there was widespread acceptance of the concept of a new "social contract" between state, capital, labor and citizens as the foundation for a new political economy. In return for public rejection of more radical alternatives to unregulated capitalism, elites agreed to support governments' commitment to high, if not always full, employment, the creation of stronger social safety nets, and the legitimation of unions, giving organized labor more influence over wage setting, working conditions, and political priorities. The US transition, while quite dramatic in light of the pre-Depression commitment to laissez-faire, was the least bold; it featured the regulation of growth and employment through fiscal and monetary policy, modest welfare provisions, mild state regulation of business, reasonable control of financial markets (lest they once again lead the country into depression), and more union-friendly laws and conventions. Latin American countries stressed managed trade based on import substitution, industrial policy, and publicly-owned corporations. Europe had more advanced systems of business regulation, stronger support of union power, and deeper social control of economic life. Scandinavia went furthest, adopting elements of the corporatist structures that Keynes himself believed necessary for permanent societal control over market processes.[1] Of course, Japan and, later, Taiwan, Korea, and other East Asia countries instituted ambitious and effective modes of state control over domestic and international economic activity, and, as a result, achieved the highest growth rates in world history.

International economic relations were also transformed in the GA. Because of the war, economic integration was far looser than had previously been the case. Cross-border financial flows were small and tightly controlled by everyone but the US, the world's banker. John Maynard

Keynes for Britain and Harry Dexter White for the US, the chief architects of the new Bretton Woods institutions for the regulation of international trade, investment, and finance, built the new system on the core assumption that strict government control over cross-border financial flows was a necessary condition for the achievement of two important objectives. The first was increased trade integration. Keynes and White understood that the more trade dependent countries became, the more vulnerable they would be to exchange rate instability. The Bretton Woods system was therefore based on fixed exchange rates, a policy which required government control of cross border financial flows to be viable. The second objective was rapid economic growth and consistently low unemployment, to be achieved through expansionary government fiscal and monetary policy when necessary. Tight regulation of capital flows was essential here as well. Keynes was especially adamant about this. He believed that sustained full employment would not be possible if the rich were free to pull their money out of the country -- causing rising interest rates, falling stock market prices, and a plummeting exchange rate -- whenever economic or political developments were not to their liking. [2]

Socially embedded markets and government guidance of economic development were not the only reason for the economic achievements of the era, but they were, without doubt, a necessary condition for the success of the GA. These new institutions and policies had their flaws. Not everyone shared in the prosperity. And much of Asia and Latin America were controlled by authoritarian governments, some of which brutally repressed their labor movements. But the transition to state guided growth did dramatically improved economic performance in almost every country, and for most groups within most countries. Harvard economist Dani Rodrik summed up the overall record of state-guided growth in developing countries in the GA as follows:

> The postwar period up until 1973 was the golden age for economic growth. Scores of developing countries experienced rates of economic expansion that were virtually unprecedented in the history of the world economy.[3]

1973-79: A Time of Transition.

The GA institutions began to break down in the late 1960s and early 70s. In the US, rising inflation, fast growth, and increased trade competition, especially from Germany and Japan, created substantial balance of payments deficits that led to pressure on, and, finally, the destruction of the Bretton Woods fixed exchange rate system in 1972-73. Subsequent exchange rate instability triggered vigorous exchange rate speculation, which further increased exchange rate instability in a vicious circle. Ironically, rising exchange rate volatility raised the pressure exerted on governments to weaken or remove their remaining controls over cross-border capital movement so that businesses and individuals could more easily hedge against exchange rate loss. But weaker controls just led to even greater exchange rate instability.

The tripling of oil prices in 1973-74 created a burst of inflation that rocketed around the world, creating two severe strains in the GA system. First, high inflation created a crisis for Keynesian monetary and fiscal policy. In the absence of effective price controls or income policies, governments either had to accept a temporary bout of high inflation that contorted the income distribution and disrupted financial markets, or deliberately create slow growth and high unemployment to lower demand and push prices down again. US and European leaders chose to tighten monetary and fiscal policy, causing the first serious recessions of the era. Unemployment rose significantly in the in the US, jumping from 4.9% to 8.5% between 1973 and 1975. In the advanced OECD countries as a whole, unemployment went from an average 3% in the period leading up to 1973, to 6% by 1979. Second, the oil price hikes created massive international payments imbalances, which led to a qualitative rise in cross-border capital flows and thus to a further erosion of capital controls. The ocean of money flowing to OPEC countries ended up being deposited in large US and European banks, who could not find enough domestic borrowers because the US and Europe were experiencing their worst recession since the 1930s. Instead, in a process that came to be called petrodollar recycling, banks pushed loans all over Third World. This episode caused a dramatic increase in the economic power and political influence of private financial institutions, further eroded state control over financial flows, and created the preconditions for the subsequent Third World debt crisis.

1979 - 1999: Creation and Consolidation of the Global NLR

Here I focus on US, because it was the creator, propagator, and enforcer of the Neoliberal revolution in both domestic economic institutions, policies and priorities, and in the transformation of relations between domestic economies and global markets.

The second tripling of oil prices in 1979-80 was a decisive moment in the evolution of Neoliberalism. The 1970s were a very disappointing decade for advanced country economic elites. For example, in the US, the inflation adjusted value of the Standard and Poor's 500 stock market index declined by 48% between 1966 and 1979, real interest rates went from low to negative, and the largest multinational US banks suffered low profits and substantial exposure to Third World loans that were on the verge of default. The Mexican moratorium on debt repayment in 1982 demonstrated just how shaky these banks had become. Meanwhile, in the mid to late 1970s, US industrial firms had for the first time since the 1930s experienced low profits, excess capacity, and high debt, and were losing ground quickly to Japanese and European corporations. They tried to protect their market share and profit margins by cutting wages and speeding up the labor process, but at decade's end this strategy had not achieved its main goals. Organized labor was weak and demoralized to be sure, but not yet defeated. It is hardly surprising, then, that the forces of capital demanded their own "New Deal" -- a dramatic change in the relation of government to business and the economy.

There were two broad options available to both the citizens and the economic elites of the US in their struggle to deal with the economic deterioration of the 1970s. The country could have decided to initiate a serious incomes policy to help it ride out the temporary burst of oil price inflation without having to resort to massive unemployment. The oil price rise was a one-time 'shock'; inflation would have receded of its own accord in time. And the US could have followed the lead of many other countries at the time and increased government control over capital flows to calm financial markets and stabilize its exchange rate. The US might have taken the lead in creating a more effective international financial system, one based on the model originally proposed by Keynes and rejected by the US in the negotiations leading up to Bretton Woods. This system would be designed to penalize exchange rate speculation (perhaps through a Tobin Tax), support national efforts to control cross-border financial flows and regulate interest rates in pursuit of full employment, and permit governments to adopt effective industrial policies and diverse development strategies. The US could have attacked the problems of its industrial corporations through management-labor cooperation rather than through the one-sided class war launched by capital against labor. *It could have recognized the crucial fact that increased global integration, if it is to operate in the interest of all the people, requires more, not less, effective government management of the economy*. That is, the US could have begin to construct a new, more effective model of state-guided, widely shared growth appropriate for then current economic and political conditions.

Alternatively, of course, the US could begin to roll-back the economic powers of the state, letting the market, or private power, rule everywhere – domestically and internationally. *The key point is that Neoliberalism was not inevitable; it was a deliberate choice among alternative options made by elites for reasons of narrow self-interest*. In the US and UK, wealthy families and powerful industrial and financial interests chose the second path because it met their primary objectives -- to shift the burdens of the ongoing crisis to workers, the middle class, and the poor, enriching themselves through redistribution in the process. They initiated a massively funded movement in the 1970s to erase the collective or social memory of the main lesson drawn from the Great Depression -- than unregulated markets can lead to economic and social disaster. Money poured into right-wing political movements. Funding for conservative think tanks also rose dramatically. These organizations brought together an army of reactionary academics, who bombarded the public with free market propaganda, arguing that all of the country's economic problems were caused by government economic interference in otherwise flawless market processes. This campaign culminated in the election of President Ronald Reagan in the US and Prime Minister Margaret Thatcher in the UK. Each took decisive steps to ensure that the initial moves toward Neoliberalism made in the 1970s would eventuate in a new, market-driven, global economic order. By the mid 1980s, the second Great Transformation was well under way.

Domestic Aspects of the Neoliberal Counter- Revolution:

The broad outline of the evolution of Neoliberalism in the US is well known. The government, under Presidents Carter and, especially, Reagan, began to remove much of its regulatory restraints on business, as well as the controls over financial markets that were enacted in the aftermath of the stock market crash and wave of bank failures in the early 1930s. It initiated an long-term project to shrink the social safety net, exposing workers in a more intense and direct way to the pressures and threats of new 'flexible' labor markets. Federal Reserve Chairman Volcker struck a major blow for domestic Neoliberalism in 1980-81 when he attacked inflation by dramatically tightening monetary policy, kicking off an era with the highest real interest rates of modern times. This helped bring on what has been called the "Great Recession" in US in the early 1980s, which quickly spread around the globe. US unemployment climbed dramatically, fluctuating between 7 and 10 percent for seven straight years, from 1980 through 1986, severely weakening the union movement.

Meanwhile, the government retreated from its GA policy of protecting the rights of organized labor. One of President Reagan's first acts was to signal the government's abandonment of the labor movement by firing the striking federal air traffic controllers. At the same time, US corporations undertook a dramatic transformation of their labor relations policies, shifting from limited cooperation to all out war against labor. This shift in corporate labor strategies was taken partly in response to a sharp rise in international competitive pressure caused by the rapid increase in the exchange value of US dollar in the early-mid 1980s brought on by Volcker's high interest rates. Sustained high unemployment, in concert with an anti-labor government and vicious attacks by corporate management, decisively broke the power of unions -- as the wage date reviewed below will reflect.[4] Around the same time, in 1982, the President and Congress enacted the largest tax cut in US history. The benefits of these tax cuts were overwhelmingly skewed toward business and the rich, in part because they were accompanied by a substantial rise in social security taxes, which are strongly regressive. Meanwhile, the impact of the spending cuts that accompanied the tax reduction fell disproportionately on the poor. Inequality in the distribution of income and wealth has been rising rapidly ever since. By the mid 1980s, then, the Neoliberal counter revolution was well under way.

International Aspects of the Neoliberal Counter-Revolution:

The large jump in real interest rates in the early 1980s, following hard on the heels of the run-up of international debt by developing countries between 1973 and 1981, left the Third World with a crushing interest burden owed to multinational banks. Affected countries could only meet their repayment obligations if they ran continuous large trade surpluses. When the global recession hit in 1980-81, it caused the collapse of developing country exports to the First World. This triggered the Third World debt crisis, which threatened the solvency of US and European multinational banks. From the perspective of world growth, the appropriate policy response was debt relief for the Third World on a large scale supported by expansionary macro policy in the advanced countries. But the goal of US elites was not world growth, but the replacement of the remnants of the GA structures with Neoliberalism.

Since Neoliberal policies were not favored by the majority of the developing world's people, they had to be forced on them. The Third World debt crisis was ideal for this purpose, because it made developing country governments desperate for the funds needed to avoid debt default -- and the US controlled all important funding sources. In return for US, IMF and World Bank financial assistance (which was immediately recycled to multinational banks), affected governments were pressured to adopt the Neoliberal policies incorporated in the "Washington Consensus." They were forced to remove controls on capital flows and on trade, end industrial policy, liberalize domestic financial markets, opening them to penetration by foreign banks, sell their vast holdings of valuable public corporations -- preferably to foreign companies, end support for organized labor, cut subsidies to the poor, and adopt inflation-fighting or "austerity" monetary and fiscal policies to slow growth and raise unemployment. The deep recessions that followed the adoption of Neoliberal policies cut imports, while high unemployment lowered wage costs and export prices. These developments, in concert with widespread exchange rate devaluations, eventually generated the trade surpluses needed to maintain interest payments on foreign debt, thereby ending multinational banks' solvency crisis. Of course, the human costs of this strategy were incalculable. Growth halted across much of the Third World, to be replaced by deep recession. Poverty and deprivation spread widely; the 1980s is referred to in Latin America as the "Lost Decade." Per capital income growth in Latin America, which averaged 3.5% a year from 1966 through 1973, fell to 0.4% between 1974 and 1990.[5]

From the early 1980s on, the US government, enthusiastically supported by the international financial institutions they dominate, by multinational corporations and banks, by elites in most developing countries, and, somewhat more reluctantly, by European governments, relentlessly pushed its Neoliberal agenda around the world. By the 1990s Neoliberalism had even begun to penetrate East Asia. Japan permitted significant domestic and extensive international financial market liberalization in the late 1980s, creating the preconditions for the great stock market and real estate bubble of the period. When the bubble burst in 1990, a decade of slow growth followed, which led, in the insane logic of Neoliberalism, to even greater pressure for liberalization . Meanwhile, in the mid 1990s Korea came under great pressure to liberalize from the US, its own elites, and the OECD, who made financial liberalization a condition for entry. The Korea government deregulated its hitherto tightly controlled domestic financial markets, removed control over short-term capital flows, and ended its coordination of domestic investment. Foreign money poured into Korea in this period, fueling over-investment and creating the preconditions for the outbreak of financial crisis in late 1997 and deep recession in 1998.

Has Global Neoliberalism Brought the World a New Golden Age?

Proponents of liberalization argued that once government distortions were removed from global markets and the benefits of the new information based technological revolution were free to flow around the globe, higher growth, accelerated productivity gains, and declining unemployment would follow. Financial liberalization would lead to lower interest rates and higher global investment: money and technology would flow from the capital and knowledge rich advanced nations to the opportunity rich poorer countries, closing the economic gap that separated them.

Opponents of Neoliberalism argued that unregulated market systems, like the US in the prewar years, suffer from cyclical instability, the maldistribution of income and wealth, and, on occasion, depression. Unregulated global financial markets are especially unstable, generating irregular patterns of bubbles, panics and crashes. Globalization, financial liberalization, the roll back of the welfare state, and the rejection of activist government policy to regulate growth were therefore seen as a recipe for sluggish and unstable economic growth, rising inequality and perhaps, at some point, another global depression.

Experience to date supports the position of Neoliberalism's critics. The promised benefits of Neoliberalism have yet to materialize, at least not for the majority of the world's people. Global income growth has slowed, as has the rate of growth of capital accumulation, productivity growth has deteriorated, real wage growth has declined, inequality has risen in most countries, financial crises erupt with increasing regularity, the less developed nations outside East Asia have fallen even further behind the advanced, and average unemployment is higher.

The problem is not that the globalization process is too immature to significantly affect economic performance. Liberalization has proceeded at an impressive pace in the past two decades. For example, financial capital has become extraordinarily mobile. In 1977, in the midst of petrodollar recycling, about $18 billion of currency trades took place daily; in 1983 the figure was $83 billion. In 1989, it was $590 billion. By 1998, $1.5 trillion moved across borders every day. And foreign direct investment flows, which averaged $50 billion a year in 1981-85, rose to $160 billion annually in 1986-91, and were $331 billion in 1995. They rose by more than 20% a year between 1986 and 1995.[6]

Not surprisingly, such hyperactive capital flows have been accompanied by increased volatility of exchange rates, and frequent bouts of domestic and international financial instability. The Neoliberal era has been characterized by the near continuous outbreak of financial crises. "Financial crises seem now to happen with almost monotonous regularity," The Economist observed.[7] Martin Wolff of the Financial Times summed up a late 1998 World Bank report on the Asian crisis as follows:

> Three crucial lessons can be drawn from the report. It is surprisingly difficult for countries embarking on financial liberalization to avoid disasters. When they succumb, it is no less difficult to escape economic depressions. If short-term capital flows are not tamed, such crises are certain to reoccur"[8]

But this freedom of capital flows has not brought lower real interest rates as promised. For the G7 nations, for example, real long term interest rates averaged about 2.6% from 1959-70, 0.4% from 1971-82, but jumped to 5.6% in the 1982-89 period, and averaged 4% from 1990-97.[9] High interest rates are one reason why inequality has risen in recent decades; ever larger shares of national income are being transferred from workers and other income claimants to owners of financial assets, who are the richest group in society.

Most important, *world economic growth has slowed significantly*. The most authoritative and widely cited data on global growth rates was compiled in 1995 by Angus Maddison for the Organization for Economic Cooperation. He reported that while annual real GDP growth in the world economy averaged 4.9% in the Golden Age years from 1950 to 1973, it slowed to 3.0% in 1973-92. Western European growth rates fell from 4.7% in the early period to 2.2% in the latter one. Latin America's growth averaged 5.3% from 1950-73, but only 2.8% from 1973-92. Africa grew at a 4.4% pace in the first period, but at a 2.8% rate in the second one. Asia, the last bastion of state led development, was also the only major area not to experience a significant post Golden Age slowdown, maintaining growth between 5% and 6% for the entire era.[10]

We get the same results if we focus on the 1990s. World GDP growth averaged but 2.5% from 1991-98, after the NLR had been firmly established -- *by far the slowest growth rate of the post war era*.[11] Developed nations had an average GDP growth rate of only 2% from 1990 through 1998. Latin America growth averaged 3.4% from 1990-98, better than in the "lost decade" of the 1980s, but much lower than in the Golden Age. Desperate Africa showed GDP growth of only 1.8% a year from 1990-98. By way of contrast, the state-led "tiger" economies of East Asia grew by 6.7% from 1990-97, prior to the outbreak of financial crisis in that region.[12] Ironically, it is only the outstanding performance of the state-guided, anti-Neoliberal East Asian economies that has kept developing country growth, inequality, and poverty rates from being even more disappointing in the Neoliberal era than the data indicate.

With both real interest rates and exchange volatility risk so high, it is not surprising that most studies report a slowdown in capital investment. According to World Bank data, the annual rate of growth of world real gross domestic investment was 7.0% from 1966 to 1973 at the end of the Golden Age. It then fell to 2.2% from 1974 to 1979, rose modestly to 2.8% from 1980 to 1989, then fell slightly to 2.7% from 1990 through 1996, the last year for which data is available. Investment growth in the 1990s was especially sluggish in the developed world: high income OECD countries had an average annual growth of investment of only 2.1% from 1990 through

1996.[13]

Other crucial performance indicators, such as average unemployment and productivity growth rates, exhibit the same pattern. For example, the unemployment rate in the European Union, about 3% in the GA, averaged a depression level 10.2 percent from 1992 through 1999.[14]

Economic performance has deteriorated -- on average and for majorities -- virtually everywhere but in pre-crisis Asia. And even the majority of people in those East Asian countries most affected by the recent crisis have lived through a significant deterioration in their economic environment. In 1997 the United Nations Conference on Trade and Development evaluated global economic performance in the Neoliberal era. Their report drew the following conclusions.

- Taken as a whole, the world economy is growing too slowly to generate sufficient employment with adequate pay or to alleviate poverty;
- This has accentuated longstanding tendencies for divergence between developed and developing companies;
- Finance has gained the upper hand over industry, and rentiers over [business] investors;
- Capital has gained in comparison with labour, and profit shares have risen in developed and developing countries alike;
- Growing wage inequality between skilled and unskilled labour is becoming a global problem;
- The hollowing out of the middle class has become a prominent feature of income distribution in many countries;
- There is almost everywhere increased job and income insecurity.[15]

Is the US "New Economy" the One Great Neoliberal Success Story?: The Macro View

It is often claimed that at least the US, by adapting to the Neoliberal era earliest and most completely, has prospered. US industrial and financial corporations dominate world markets, it is argued, job growth is strong, unemployment is low, the US is master of the new information technologies, the world leader in productivity growth, and the pioneer of ruthless corporate downsizing and restructuring. Thus, the story goes, US success will be replicated by other nations, including Japan and Korea, a few decades hence, provided they adopt Neoliberalism with the same enthusiasm and thoroughness as America. But are these claims substantiated by the evidence?

Unfortunately, even after recent data revisions that raised post 1978 performance measures, the claim of US exceptionalism is not supported by US macro economic data. US GDP growth averaged 4.2% a year from 1959-73, but only 3% in the Neoliberal years from 1980-99, about the same rate of growth as in the 1974-79 era. From 1990-99, growth was also 3% per year.[16] And the average US unemployment rate, which was 4.8% from 1950-1973, rose to 6.6% in 1980-98.[17]

Recent data revisions make it especially difficult to interpret trends in labor productivity. Prior to revision, the pattern was quite clear. Annual growth in labor productivity for the nonfarm business sector averaged 2.9% from 1959-73, but fell to under 1.3% from 1980-98, and was a shockingly disappointing 1.4% in the decade of the nineties, even in the face of an explosion of investment in high technology equipment.[18] Nobel Laureate Robert Solow commented that the effects of the computer-based technological revolution were visible everywhere but in the US productivity data. Revisions have changed this to some degree, as they were intended to do. They lowered estimates of past inflation for 1978-99 and thereby raised estimates of output and productivity in the past two decades, both in absolute terms and by comparison with the GA. (Curiously, the inflation data for years prior to 1978, including the GA era, were not revised and, therefore, GA growth rates were left unchanged; no explanation for this asymmetry has been offered.) They also increase the estimated contribution to productivity of investment in information technology, especially software. As a result, measured productivity growth in the

1990s has been substantially increased. Yet the same basic time pattern remains, though the slowdown in the nineties is not as dramatic as before. Annual productivity growth is still calculated to be 2.9% from 1959-73, and a bit over 1.3% from 1980-89, more or less as before, but estimated productivity growth for 1990 through 1999 has been raised to 1.9% a year -- one third higher than previously estimated, but still about one-third lower than in the GA, and still no higher than in the decade of the 1970s.[19]

Moreover, the new data has a peculiar characteristic. The revised numbers show that productivity in 1995-99 rose by 1.35 percentage points from its 1972-95 average. According to Robert Gordon of Northwestern University, one of the country's leading productivity experts, .54 percentage points can be explained by a cyclical effect: productivity always rises when output growth is above average, leaving .84 points of increased trend growth. But the entire trend growth is attributable to faster multi-factor productivity growth (MFP) in the durable manufacturing sector, consisting of computers, peripherals, telecommunications, and so forth. "There is no revival of productivity growth in the 88 percent of the private economy lying outside of durables; in fact, when the contribution of massive investment in computers is subtracted, MFP growth outside of durables actually *decelerated."*[20] "Outside of durables manufacturing," Gordon notes, "the New Economy has been remarkably unfruitful as a creator of productivity growth."[21] Since Gordon's analysis of the pre-revision data done in 1999 showed that "there has been *no* productivity growth acceleration in the 99 percent of the economy outside the sector which manufactures computer hardware ... beyond a normal (and modest) procyclical response," the sole effect of the revisions has been to extend the recent growth of productivity beyond computers, to the rest of the (small) durables manufacturing sector.[22]

It is true that a number of aspects of US performance have improved significantly in the past four years. Newly revised data shows that real GDP growth averaged 4.1% from 1996 through 1999. This is a good performance, though not exceptional; for example, real GDP growth averaged 4.7% a year in the four years ending in 1979. Unemployment has been below 5% for three years, yet inflation remains subdued. Even real wages and median real family incomes, in decline or stagnant, respectively, for so many years, have recently begun to slowly increase.

Nevertheless, it would be a mistake to conclude at this time that the US economy has finally entered a glorious "New Era" whose economic record will equal if not exceed that of the GA. The current expansion is dependent on a number of unsustainable trends. Consumer spending has been rising at a much faster rate than GDP in the past three years; the contribution of consumption growth to GDP growth almost doubled since 1993-96. But an unusually high proportion of consumer spending is directly or indirectly related to the incredible stock market boom of recent years, which saw the S&P 500 stock price index rise by over 60% a year from 1996 through 1999. Household incomes have been augmented by substantial realized capital gains in recent years; they are estimated at $440 billion for 1998.[23] The huge rise in household financial wealth has caused the household saving rate to fall to an historic low; almost 100 percent of income flows are currently spent on consumption goods. Finally, rising paper wealth has supported a sharp rise in household borrowing to finance both stock and consumer good purchases in recent years.

However, most experts agree that the stock market is substantially over-valued by every widely accepted yardstick, making a very large price decline almost inevitable. For example, the price to earnings ratio for the S&P 500 stock price index has been at about twice its post-war average for several years. Dividend yields on stock are at historic lows. And the ratio of stock market capitalization to GDP, now above 150%, is more than three times its long-term average.[24] Moreover, it will not be possible for the US to rely forever on the quarter Trillion dollar net annual inflow of foreign investment funds the US has received in the in the last four years, or the unsustainable rate of debt financed stock purchases. Margin debt to buy securities has tripled since 1997, reaching $230 billion in early 2000.[25]

But margin borrowing is hardly the only debt problem. The growth spurt of the last four years has been driven by an enormous rise in private sector debt. According to The Economist, "American households and firms have been borrowing hand over fist, lifting their combined debts to a record 132% of GDP. It is these debts which could make the consequences of a stock market collapse more serious and damaging than most people expect."[26] . Household debt as a share of disposable income, nonfinancial corporate debt as a percent of corporate output, and private financial sector debt as a percent of GDP were all at post War highs in 1999.[27] The conservative Financial Times columnist Samuel Britton recently observed that:

> the financial bubble is not simply a sideshow in a booming US real economy. It is an essential part of that boom. The private sector is running an unprecedented financial deficit, which can only be maintained because the soaring value of financial assets – and to a lessor extent, real estate – provide the impression of increasing wealth. Should that change, the proverbial hard landing would not be far away.[28]

When, as is inevitable, the stock market suffers its long anticipated 'correction,' and the limits of debt financed consumption and investment have been reached, a sharp recession can be expected to follow. As the recession unfolds, the economic drag represented by the record high $400 billion US merchandise trade deficit (which helped raise the current account deficit to a record 4.2% of GDP in the first quarter of 2000), will finally make its weight felt. At this point, one would guess, arguments in support of the "New Economy" thesis will be much harder to find.

Is the US "New Economy" the One Great Neoliberal Success Story?: The Micro View

If we look below national economic performance and examine the situation confronting ordinary American workers and their families, things look even worse.[29] The real average hourly earnings of production and nonsupervisory workers, a category covering the bottom 80% of wage earners, grew at 2.3% a year from 1947 to 1973, but was actually 4.5% *lower* in 1999 than it had been in 1979. 1998 is the first year in the 'roaring nineties' in which this measure of wages exceeded its 1989 value. A broader index, the median real wage of full time workers, rose sharply in the GA, then fell by 5.5% between 1979 and 1997. Reflecting increased labor market opportunities for women, the female median wage rose, but by less than 7% for the 1979 to 1997 period. *The male median real wage declined by an extraordinary 15% in the same period.*

The decline in male wages has been widespread. The bottom 80% of the wage distribution lost ground in the Neoliberal era. The 90th percentile worker gained only a total wage increase of 2% for the1979-97 period. Even most male college graduates fared poorly: their median real wage was slightly lower in 1997 than in 1973. Of course, since the bottom half of male workers suffered wage losses in excess of 15%, while the top 10% received modest to large wage gains, the US experienced a substantial rise in wage inequality in the Neoliberal era.

This is an astounding development. Though real GDP rose by about 67% and labor productivity increased by 32% from 1979 to 1997, the overwhelming majority of US workers, including half of male college graduates, experienced falling or stagnant wages. It is difficult to reconcile these facts with the theory of labor markets used by Neoliberal economists, but they are perfectly consistent with alternative theories that allow institutions and power relations to strongly influence wages and factor shares. As noted above, the institutions and power relations of the second Great Transformation were designed to make the economy function in the interests of large corporations and wealthy elites. The wage data demonstrate that the relentless war waged since 1980 under the banner of Neoliberal globalization by capital and the state against the American worker has resulted in victory by the aggressors.

Economic well being often depends not just on the individual's wage, but is strongly affected by family income as well. In the US, median real family income rose by 2.9% a year from 1947-73, more than doubling in the GA. But it grew by a scant 0.2% per year from 1979-97.[30] How did family income manage a slight increase in a period when real wages were falling? The answer is that the average time at work per family increased substantially. Between 1979 and 1996, total hours worked by the median family increased by 9%, or about 6.5 weeks per year. For the median married couple with children, hours worked per year rose by 19% -- an astounding total of 15. 4 extra weeks per year.[31]

Moreover, inequality of family income has risen substantially in the Neoliberal era. Over 70% of the income gains between 1977 and 1989 went to the top 1%of families. From 1980 to 1989, incomes of the top 1% of families rose by 88% while median family income remained constant.[32] From 1979 to 1996 the top 5% of families raised their share of income from 15.3% to

20.3%.[33] According to Business Week, “the 1990s were especially good to the top 20% and top 5% of families.” From 1988-90 to 1996-98, the pre-tax real income of the bottom 20% of families remained virtually unchanged, and the middle quintile had a small gain of $780 dollars, but the top 20% and 5% of families had income increases of $17,870 and $50,760, gains of 15% and 27% respectively.[34] The ratio of the income of the top 5% of households to that of the bottom 20% rose by 26% from 1998-90 to 1996-98.[35] And this income measure does not even include capital gains, which accrue disproportionately to the top 10% of families.

A 1995 Federal Reserve survey showed that the top 1% of families own over 50% of all stock and 66%of bonds. The bottom 90% own just 12% of stocks and other financial investment assets.[36] The net worth of the *Forbes 400*, the 400 wealthiest Americans, almost tripled between 1995 and 1999.[37] The incredible bull market of the 1990s raised the value of US stock by $11 trillion from 1991 to 1999.[38] The top 1% of families, then, received about $6.5 trillion in capital gains, a fabulous bonanza. In 1997 realized capital gains alone represented 5% of all market-based personal income. Thus, rich families have every reason to be delighted with the performance of the US economy in the Neoliberal era because they have received almost all of its benefits. Since the well to do dominate the American political process, it is not surprising that the US continues down the Neoliberal path in spite of the growing threat it poses for the average American family.

Finally, note that the US continues to experience the highest poverty rates of all the advanced countries. Poverty rates fell continuously in the GA: from 1959 - 73 the individual poverty rate fell from 22.4% to 11.1%. From 1973 to 1979 it rose slightly, to 11.7%. It has remained above its highest 1970s level in every year since 1979.[39] In 1998, with unemployment below 5%, it was 12.7%.

Looked at from the perspective of the typical American worker, the average American family, or the poor in America, it is clear that the Neoliberal experiment has been a failure. Not only has the rate of improvement in wages and family income been dramatically inferior to the rate of progress in the GA, by many measures people are worse off in an absolute sense than they were earlier. Meanwhile, inequality has risen substantially while no progress has been made in poverty reduction.

Some might take consolation in the belief that the victory by US capital over its workers has at least restored US economic dominance in world markets. However, though it has raised the profit rate and the profit share of income, the defeat of American labor has not returned US industrial firms to global competitive leadership. US wages have fallen dramatically relative to those of its competitors. And US corporations have been the leading investors in computer based technology and the most ruthless cost-cutters — through the mass firings we call downsizing, through plant relocation, the substitution of temporary for permanent workers, union-busting, and outsourcing. Yet since the early 1980s America has run the largest merchandise trade deficits in the world. By 1999 almost every sector of the global economy was running a trade surplus with the US. The merchandise trade deficit in 1996, before the outbreak of the Asian crisis, was $191 billion; in 1999 it was $347 billion, a record high share of GDP -- and still growing. On the reverse side of the balance of payments accounts, we find that the US, the world's largest debtor nation, has "borrowed" a cumulative two trillion dollars from the rest of the world from 1984 through 1999 to "pay for" these persistent trade deficits. In sum, US industrial corps have been very profitable in recent years, largely because they have been able to shift income from labor to capital -- the profit share of national income is at a record high. Yet they continue to lose the battle for international market dominance in spite of massive high-tech investment, a defeated labor movement, and continuously falling relative wages. On the other hand, US financial enterprises really do rule world markets, but that may be more of a curse than a blessing to Americans, since US financial interests are perhaps the most powerful force behind the drive to impose Neoliberalism on the world.

Why Does Neoliberalism Generate Global Stagnation, and What Can We Do To Restore Global Growth?

It is important to understand *why* the institutions and policies associated with Neoliberalism have generated such disappointing economic outcomes. This knowledge can help guide the redesign of the tools of economic management to improve living conditions for ordinary people. This section briefly investigates six forces, deeply rooted in Neoliberalism, that have slowed global aggregate demand growth. Slow growth in demand is important because it is the major cause of the low growth rates of output and income, and the high unemployment rates of the period. It has also contributed to numerous other important economic problems of our era.

The most important constraint on global demand is the slow growth of wages and mass consumption in the Neoliberal era. Wages have been restrained by high average unemployment, the decline of unions, weaker government support for collective bargaining, and a worldwide slowdown in productivity growth. More intensive international competition has forced many large firms to shift from worker-friendly to anti-worker labor relations.[40] Heightened job insecurity, due to rising import competition, the increased mobility of physical capital, the 1990s merger and acquisition explosion, and chronic job "churning" (associated with labor-saving technical change and new corporate strategies of downsizing and re-engineering)[41] has eroded wage growth. Moreover, increased global openness and improvements in technology have made it easier for multinational corporations to substitute low-wage Southern labor for higher-paid Northern labor -- which may contribute to lower global wage inequality, but reduces global labor income nonetheless.[42] One study of 19 developed countries (not including the US) found that after rising rapidly through the early 1970s, real compensation growth fell to 1.2% a year in 1979-89 and again to 0.7% in 1989-96.[43] Finally, growth in workers' disposable income has been retarded by a shift in the tax burden from mobile capital to immobile labor, rising household debt burdens, and, recently, a shrinking social safety net.

A second factor depressing global growth rates is the high real interest rates created after 1980 by independent, conservative, and inflation-obsessed central banks. The natural predilection of independent Central Bank for high real interest rates was reinforced by the spread of financial deregulation in the 1980s and 1990s, which increased the power of global financial interests. Rentiers were increasingly able to use capital flight to punish countries for using monetary policy to pursue growth and employment rather than low inflation. Moreover, the heightened instability of global financial markets, exacerbated by the increasing incidence of banking and currency crises, caused financial investors to demand larger risk premiums on loans.

A third factor restraining growth is restrictive fiscal policy. Large cuts in the social safety net and an abhorrence of fiscal deficits are part of the Neoliberal revolution. The importance given to austere fiscal policy was recognized explicitly in the criteria established under the Maestricht Treaty and carried over to the Euro zone. Government social spending in Europe and North America is still large — representing a higher share of national income than even a decade ago. But there is no question that after rising significantly in response to slow growth and high unemployment rates in the 1980s, government spending as a share of income has peaked, and in many countries begun to decline, as conservative political forces become ever more powerful. For example, the structural budget deficit as a percent of GDP for the advanced countries exhibited a continuous fall from 3.9% in 1992 to 0.5% in 1999, and it is expected to continue to decline.[44] A drop in aggregate demand equal to 3.4% of GDP is a huge drag on economic growth.

A fourth factor is the level and character of global investment. The growth of investment spending has slowed in the Neoliberal era due to sluggish aggregate-demand growth -- low demand growth retards investment, which in turn further slows demand growth in an ongoing multiplier-accelerator process, high real interest rates, and increased uncertainty. But beyond this, much investment has been labor-saving and labor-disempowering, undertaken in support of a shift from high road to anti-worker labor policies. Thus, the increased aggregate demand it created has been counteracted to some degree by the job and wage losses associated with it.

A fifth factor is the expanding role of international institutions such as the IMF and World Bank. As more developing countries experienced national insolvency over the past two decades, the Fund and the Bank have stepped in with ever larger loans -- the loan package put together for Korea in 1997-98 was on the order of $58 billion. But they have invariably mandated austerity macroeconomic policies plus Neoliberal restructuring in return for their money. The growth of Fund-Bank mandated austerity-plus-restructuring programs around the developing world has severely constrained global aggregate demand. It has been estimated that something like 40% of the world's population live in countries under IMF dictate.

Finally, the 1990s witnessed the weakening, and perhaps even the death-knell, of the East Asian state-guided, late-development models. Battered by increased liberalization of trade, investment, and, especially, financial capital flows, by threats from the G7 nations, the IMF, the World Bank, and multinational firms and banks, and by ever stronger demands from domestic elites for freedom from government control, the traditional structures of state economic regulation across Asia are weakening. Korea and Japan are two prime examples of this dynamic process. Under its indigenous development models, East and Southeast Asia was the only high growth area in the world in the Neoliberal era. Business Week reported that "Of 119 countries studied by the World Bank over these decades [from the mid-1960s through the mid-1990s], seven achieved both high growth and low income inequality. All seven were in Asia."[45] About half of the growth in global GDP from 1989 through 1997 originated in East Asia. The substitution of Neoliberalism for state-guided growth in East Asia would lower average global growth rates significantly.

These six constraints on demand growth are not the only reasons why economic performance has been unsatisfactory in the Neoliberal Regime, but they are a good example of the kinds of structural problems that have made the second *Great Transformation* an economic disaster. They can therefore serve as what-not-to-do guidelines to aid in the construction of a new set of institutions and policies of economic management designed to help create widely shared prosperity in the world economy.

The first step that must be taken to restore global economic health is political in nature. Strong progressive political movements are needed -- in the US, Japan, Korea and elsewhere -- to reduce the influence of large corporations and wealthy individuals on the setting of political priorities, and increase the political influence of labor and the citizenry. Only after a change in the balance of class political power has taken place will it be possible to hammer out new "social contracts" -- similar to those that underpinned the Golden Age -- committing all social forces to the rejection of Neoliberalism and the restoration of socially regulated, state-guided economic systems. Government control over cross border capital flows and direct foreign investment must be crucial parts of this *political* power re-alignment. As Keynes taught us, it is the credible threat that money, physical capital, technology, and jobs will flee the country if government policies are not pro-business that has given capital the power to determine political priorities in the Neoliberal era. Capital controls can help reverse the perverse political power relation between capital and the citizenry.[46]

These new social contracts must commit governments to support strong unions and effective collective bargaining, progressive taxation, and more generous social safety nets. Monetary and fiscal policy must once again, as in the GA, be targeted at healthy growth and sustained low unemployment, not just price stability. This may require experimentation with incomes policies to enable countries to develop policy options other than recession to deal with inflation shocks. And it will require the widespread implementation of effective national and\or international regulation of cross-border capital flows, so that low interest rate policies can no longer be vetoed by global financial interests. Capital controls will reduce exchange rate instability and make global financial crises, and the deep recessions which follow in their wake, much less likely.

If these objectives can be achieved, governments will once again, as in the GA, become a force for economic expansion, raising the rate of growth of family income in middle, working class and poor households. As a result, global mass consumption should increase significantly. Investment can be expected to pick up when real interest rates decline, exchange rates become more stable, and the rate of global aggregate demand growth rises.

The international institutions that currently manage global integration, such as the IMF, the World Bank, and the WTO, must be replaced by new institutions that support egalitarian growth policies; they are far too saturated with Neoliberal ideology and dedicated to the pursuit of multinational corporate interests to be successfully reformed. The new international institutions should be pro-growth, and designed to encourage rather than undermine national efforts to use industrial policies and state-guided development models. They must also embody the goals of Keynes and White in the Bretton Woods negotiations and support national efforts to control capital flows. And, mimicking the medical maxim that the first obligation of a doctor is to do no harm, they must stop imposing austerity macroeconomic policy on countries who need their help in times of crisis.

Conclusion

The purpose of this chapter is to provide a long-term economic and political context within which to analyze the impact of Neoliberal globalization on the provision of housing for the majority of ordinary people in the US, Japan and Korea. Its evaluation of the current global economic trajectory is quite pessimistic. If the world continues down the path of Neoliberalism, economic prospects for the majority of people, in both developed and developing nations, are dismal. More of the same disappointing performance that we have experienced in recent decades may be the most likely scenario, but it is also quite possible that serious political and economic instability will erupt -- just as it did in 1930s, in the last market dominated era. There is thus an urgent need to reverse course. It is essential that the Neoliberal path be rejected, and replaced with domestic and international government institutions and policies dedicated to the pursuit of the security and prosperity of the majority of the population, rather than the maximization of the wealth and power of national economic elites.

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ENDNOTES

1.See Crotty 1999 for an exploration of Keynes's views on corporatism.

2.See Helleiner 1994 for an analysis of the construction and subsequent erosion of the Bretton Woods system.

3. Rodrik 1999, p. 68.

4.See Howell 1994 for an excellent analysis of the one-sided war fought by American corporations against their workers in the 1980s.

5. World Bank 2000, p. 157.

6.United Nations 1994, p. 12, and 1998, pp. 2 and 385.

7.The Economist, June 12, 1999, p.65.

8.Financial Times, December 9, 1998.

9.Reported in Felix 1998, p. 184 and International Monetary Fund 2000, p. 184.

10.Maddison 1995, p. 60.

11.World Bank 2000, p. 152.

12.Data from United Nations Conference on Trade and Development, Trade and Development Report (New York: United Nations), various issues.

13.Data on world investment is for 210 countries for which a complete investment time series is available, and is taken from the World Bank's "1999 World Development Indicators CD- Rom", as is the data for high income OECD countries. Calculations are by the author.

14.International Monetary Fund 2000, p. 117.

15.United Nations 1997, pp. 65-66.

16.Bureau of Economic Analysis website: www.bea.doc.gov./bea/dn/gdppch.htm.

17.Council of Economic Advisers 1999, p. 376.

18.Council of Economic Advisers 1999, p. 384.

19.Council of Economic Advisers 2000, p. 362.

20.Gordon 2000, abstract, emphasis in original.

21.Gordon 2000, p. 46.

22.Gordon 1999, p. 1.

23.Congressional Budget Office 2000, p. 57.

24.Financial Times, Jan 25, 2000, p. 16.

25.Financial Markets Center website: www.fmcenter.org.

26.The Economist, Jan 22, 2000, p. 24.

27.Business Week, Nov. 1, 2000, p. 41.

28.Financial Times, Jan. 20, 2000, p. 11.

29.The data in the next two paragraphs are taken from Mishel, Bernstein and Schmitt 1999, pp. 127, 131-33, and 164.

30.Data in this paragraph are from Mishel, Bernstein and Schmitt 1999, pp. 51, 131, 132, and 157.

31.Mishel, Bernstein and Schmitt 1999, p. 82.

32.Mishel and Bernstein 1994, p. 42.

30.Mishel, Bernstein and Schmitt 1999, p. 49.

34.Business Week, Jan, 31, 2000, p. 34.

35.Bernstein, McNichol, Mishel and Zahradnik 2000, pp. 22 and 25.

36.Wolff 1998, p. 140.

37.Cited in Kinnickell 2000, p.1. “An Estimation of the Distribution of Wealth from 1989 to 1998: Evidence

38.Washington Post, Feb 1, 2000.

39.Sturiale 1997, p. 12.

40.See Crotty 2000 for a discussion of ways in which Neoliberalism undermines the conditions necessary for companies to adopt worker friendly, or high road, labor relations policies.

41. Business Week reports that “Constant restructuring and consolidation by large corporations is driving layoffs to record highs” (Dec 27, 1999, p.55).

42.Another factor depressing global wages was the entry of workers from China, the former Soviet Union, and India into the available global labor pool.

43.Mishel, Bernstein and Schmitt 1999, p.362.

44.International Monetary Fund 2000, p. 132.

45.Business Week, Dec13, 1999, p.120.

46.This argument is presented and defended in Crotty and Epstein 1996.