A SHIFTING WORLD ORDER

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Part II: Ultra-Capitalism at a Breaking Point

Introduction:

In the last installment of this series, we considered the rise of American economic hegemony from World War I through the 1950s and 60's, ending in an endemic profit crisis in the late 1960s and early 1970s. This installment focuses on a) the new economic order that slowly emerged out of the ashes of the old in the ensuing decade, and b) almost half a century later, how that new order itself is in deep crisis.

Social consciousness lags behind, but ultimately must reflect, changes in material reality. Over the past few years, culminating in the eruption of the Covid-19 pandemic, the United States has witnessed rapidly growing political and social conflict. Covid-19 has accelerated this change, which has been prepared over the past four decades by the cumulative impact of three broad, interrelated, deflationary economic processes: 1) the containment of wage increases; 2) the globalization of economic production; and 3) the financialization of the economy. The major outcome of these processes has been a massive upward transfer of wealth, leading to the present situation of extreme inequality. This basic socio-economic reality is weighing increasingly on political systems in the U.S. and a number of other countries, while undermining traditional democratic norms. In other words, the increasingly explosive political situation reflects the fact that social consciousness is catching up to objective social and economic conditions. This report analyzes the processes that have led to this situation.

We will first describe the economic transformations initiated by the end of the "social contract" period of American capitalism. We will then turn to their devastating social impact, and conclude with our view on the present situation, a tinderbox for social and political stability.

A Period of Wage Suppression, Globalization and Financialization

The economic transformation that began in the late 1970s and early 1980s was driven by multilayered and mutually reinforcing developments, all aimed at reversing declining profit rates.

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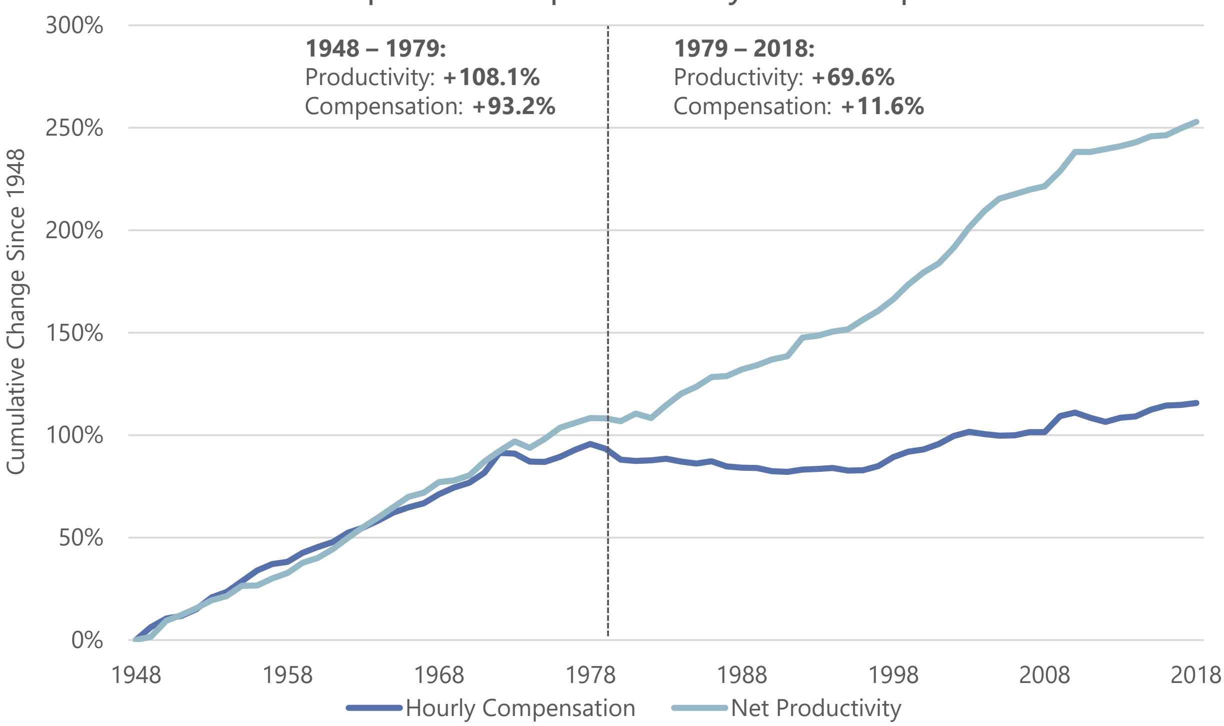
The years between 1979 and 1981 set the stage. In May 1979, Margaret Thatcher assumed office as Prime Minister of the United Kingdom. In August 1979, Paul Volcker was installed as Chairman of the Federal Reserve System's Board of Governors in the U.S. In November 1980, Ronald Reagan defeated the incumbent Democrat president, Jimmy Carter, and was inaugurated as the nation's 40th president on January 20, 1981.

These leadership changes expressed a drive in both statecraft and economic policy to reverse declining corporate profit rates, a phenomenon that had become the subject of substantial debate among economists over the 1970s. The emerging zeitgeist mandated that reversing falling profits required unleashing deflationary forces in various guises. The efforts deployed to realize this goal would come to define the new epoch: deregulation, globalization, rolling back the power of organized labor, and restraining wage increases.

Wage Suppression: The most critical aspect of lifting profit rates has been the suppression of wage pressure.

Relationship between productivity and compensation



Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics (BLS) Labor Productivity and Costs program, wage data from the BLS Current Employment Statistics, BLS Employment Cost Trends, BLS Consumer Price Index, and Bureau of Economic Analysis National Income and Product Accounts
Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

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1. As this was routinely expressed in the U.S., the main goal was to break stagflation — the combination of inflation and slow economic growth of the 1970s. This in turn hinged on stopping the wage-price spiral of the 1970s, in which workers, who went on strike at a rate of roughly 1 million per year that decade, struggled to keep wages abreast cost-of-living increases. In addition to wage increases, inflation had been spurred on by the collapse of the Bretton Woods system and by the oil price shocks imposed by OPEC.

   Volcker precipitated the recession of 1980-1982 by raising the federal funds rate to 20% and the prime rate to 21.5% in 1981. This triggered the highest unemployment levels since the Great Depression, crushing wages and bringing to an end the heightened strike activity of the 1970s. Unemployment and high financing costs collapsed the market for big ticket consumer items and products of basic industry. High interest rates and dollar appreciation forced debtors to the wall, including many small farmers and some major corporations — most notably Chrysler. The greenback's strength drastically reduced the competitiveness of U.S. exports while precipitating a surge in imports, especially from Japan and the rest of East Asia, further exacerbating industrial unemployment.

2. Volcker's elevation and Reagan's election signaled that the era of the "social contract" class compromise in American history, which we described in our previous report, had come to an end. Reagan's breaking of the PATCO air traffic controllers strike in 1981 was pivotal to these developments, a fact acknowledged by Volcker. "The most important single action of the administration in helping the anti-inflation fight was defeating the air traffic controllers strike," Volcker later said.[1] PATCO, with a membership drawn heavily from the ranks of the U.S. Air Force, had endorsed Reagan in the 1980 election. Nonetheless, Reagan declared the strike illegal and unilaterally fired the roughly 12,000 strikers, a decisive action that cowed the federation of American labor unions, the AFL-CIO, into providing little assistance to the strike.

   PATCO's total defeat established a pattern for other notable strikes that followed in the 1980s, in numerous sectors of the economy — mining, air travel, paper milling, meatpacking, and machine manufacturing, to name a few.

3. American workers learned a bitter lesson through the defeats of the 1980s: they stopped going on strike. Strike activity plummeted from the late 1970s to record lows in the 2000s.

[1] *Panitch, L., and M. Konings. 2008. American Empire and the Political Economy of Global Finance. Springer: 34.*

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Source: US Bureau of Economic Analysis
** Days idle includes all stoppages in effect during the reference period. For work stoppages that are still ongoing at the end of the calendar year, only those days of idleness in the calendar year are counted.*

By 1990, union density rates had fallen drastically. These trends have continued to the present, with current union density in the private sector at its lowest in historical data going back to the first years of the 20th century.

Primarily driven by the inability of nationally-based trade unions to contend with globalization — a subject to which we shall return — union decline has been abetted by unfavorable labor board rulings, the proliferation of "right-to-work" or open shop laws across American states, and a generally much more aggressive posture toward organized labor by corporations and all levels of government. Even where unions still exist, the rearranged power dynamic between capital and labor has had a dramatic impact on collective bargaining. As traditionally understood, trade unions negotiate wage increases. But beginning in the late 1970s, most notably with the federal bailout of Chrysler Corporation, "concession bargaining" became the norm.

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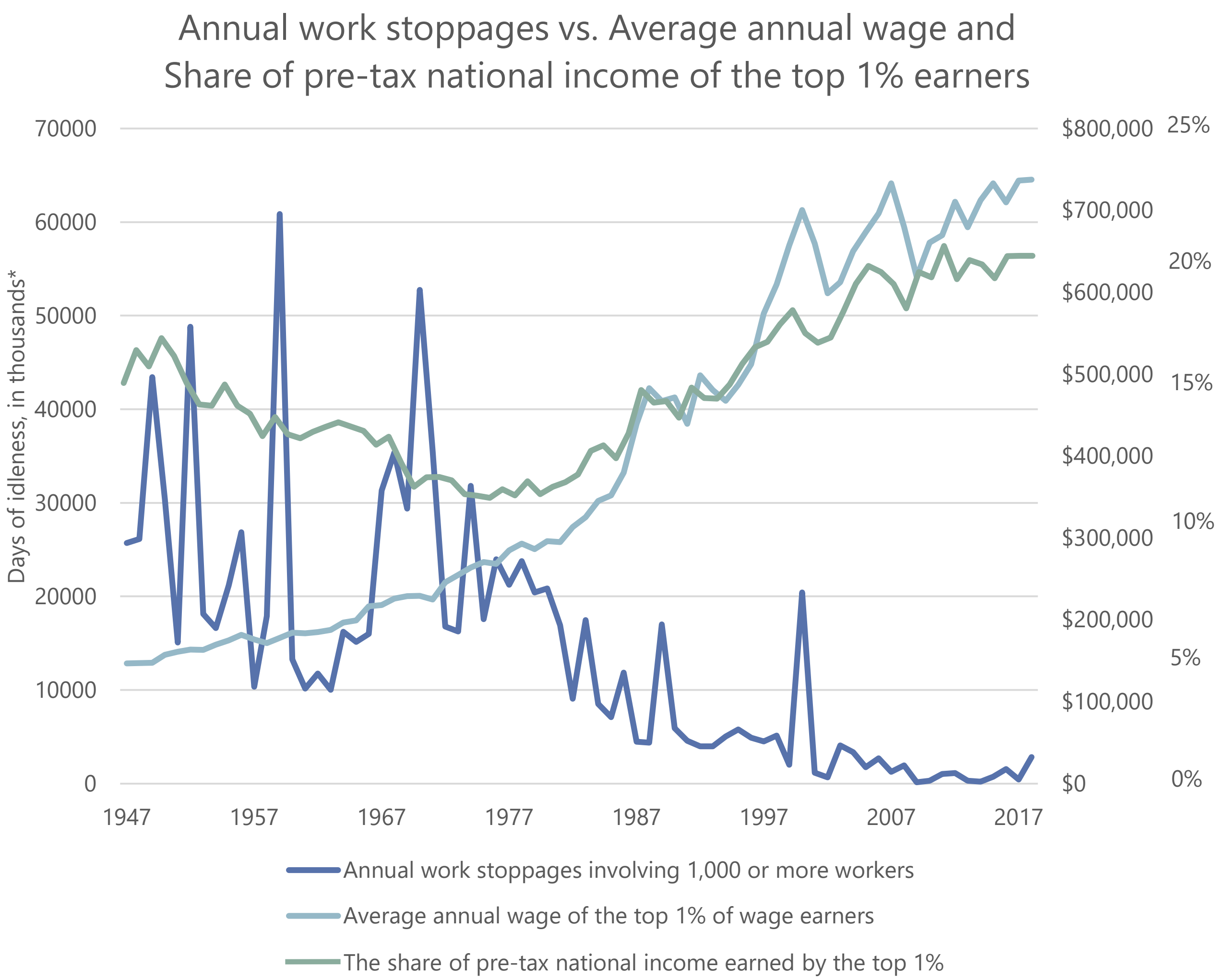
4. The following chart demonstrates the correlation between the rise in income inequality on one hand, and declining union density and strike activity on the other. Note the widening of the scissors beginning in the late 1970s and early 1980s.



Source: US Bureau of Economic Analysis, Economic Policy Institute, World Inequality Database
** Days idle includes all stoppages in effect during the reference period. For work stoppages that are still ongoing at the end of the calendar year, only those days of idleness in the calendar year are counted.*

According to a 2019 study by the Economic Policy Institute, CEO compensation has increased by 940% since 1978, while worker compensation has increased by only 12% over the same period. Wages going to the top 1% of earners increased by roughly

150% between 1979 and 2016, whereas those going to the bottom 90% grew by 21.3%.[2]

5. The media's focus on the official unemployment rate and the quantity of jobs obscures a decline in the *quality* of jobs available, with low-pay and contingent forms of work proliferating in the manufacturing and service sectors. According to one study, average market income for the bottom 50% of earners fell by 6.2% between 1980 and 2014. Adjusted to 2014 dollars, this is a decline from $18,049 in 1980, to $16,136 in 2014. The share of 18-34 year-old workers with poverty-wage jobs, those making under $13.33 per hour in 2017, increased from 31.5% in 1979 to 42.8% at the end of 2017. For young male workers without a college degree, the figure was 50.9% in 2017, a doubling in less than four decades. These trends were exacerbated by a corresponding diminution in non-wage benefits such as health insurance.[3]

6. Supplanting traditional forms of contract labor by flexible and just-in-time employment in the gig economy also places downward pressure on worker pay. In May 2017, the Bureau of Labor Statistics estimated that 5.9 million American workers held "contingent," or temporary jobs, and there were an additional 10.6 million employed in "alternative work arrangements" including independent contractors, on-call workers, temporary help agency workers, and contract firm workers. These categories, allowing for some overlap, account for upwards of 13% of U.S. employment in 2020.

Globalization: The globalization of economic production contributed decisively to wage stagnation in the U.S. and other advanced industrial economies. Globalization was a multi-faceted process, entailing not only an increase in cross-border trade, but also the organization of planning, production, transport, and distribution on a global scale. Nationally-based supply chains were supplanted by those which were integrated internationally. This allowed corporations to shift production with relative ease, putting them in an effective position to arbitrage labor cost differentials across geographies.

1. Technological developments in telecommunications, transport, and, above all, computer technology paved the way for globalization. By one estimate, a three-minute phone call from London to New York in 1930, cost $250 in 1990 dollars. By 2005, the price had fallen to 10 cents, and is essentially cost-free today. Similar price

[2] *"CEO Compensation Has Grown 940% since 1978: Typical Worker Compensation Has Risen Only 12% during That Time." n.d. Economic Policy Institute (blog). Accessed January 18, 2021. https://www.epi.org/publication/ceo-compensation-2018/.*

[3] *Howell, Arne Kalleberg, David. n.d. "There's an under-the-Radar Job Crisis Hurting Millions of Americans." Business Insider. Accessed January 18, 2021. https://www.businessinsider.com/jobs-report-quality-labor-market-crisis-economy-hurts-americans-2019-11.*

reductions are evident in transportation, where the cost of moving manufactured goods fell by roughly 90% over the course of the 20th century. Declining costs of air travel made it the primary means of transporting expensive and lightweight manufactured items. Meanwhile, for heavier water-borne cargo, the development of container transport in shipping also greatly reduced costs, allowing factories and production chains to move away from traditional urban manufacturing centers such as New York City.

2. A steady reduction in trade barriers in the post-World War II era liberalized trade. The Global Agreement on Trade and Tariffs negotiated in 1947 was followed by round after round of talks culminating in the high point of trade liberalization, the Uruguay Round of 1994 that resulted in the formation of the World Trade Organization. The Uruguay Round reduced average tariff levels among participant nations to less than 5%, down from an average of 22% among the initial GATT signatories in 1947. International regions of integrated economies also formed trading blocs over this period, including NAFTA in North America and the European Union.

3. Nationally-based corporations transformed into transnational corporations, which are characterized by complex and multi-centered international planning, production, and distribution. By the mid-1990s, there were some 40,000 transnationals holding $3.4 trillion in assets and conducting overseas sales through affiliate organizations estimated at $5.4 trillion, a figure larger than the total sale volume of official exports, which stood at $4.9 trillion. Additionally, transnationals accounted for two-thirds of the value of all exports, of which half was counted as "intrafirm trade" — exports sent from a corporation to foreign subsidiaries. Much of this commerce was "internationalized production" — the creation of final products from multiple national sources. By the 1990s, the percentage of exports accounted as intrafirm trade had risen to two-thirds, reflecting a greater complexity and volume of international supply chains.[4]

4. Globalization made production more efficient, driving down costs, and thereby contributing to deflationary pressures. At the same time, however, it has raised to an unprecedented degree of intensity the conflict between, on one hand, the dominant political form of organization, the nation-state system, and, on the other, the inherent complexity of a global economy reliant on forces of production that are increasingly integrated across borders. This conflict is the most fundamental factor in the resurgence of nationalist politics.

[4] *United Nations Conference on Trade and Development, TNCs and World Development, London, International Thomson Business Press, 1996.*

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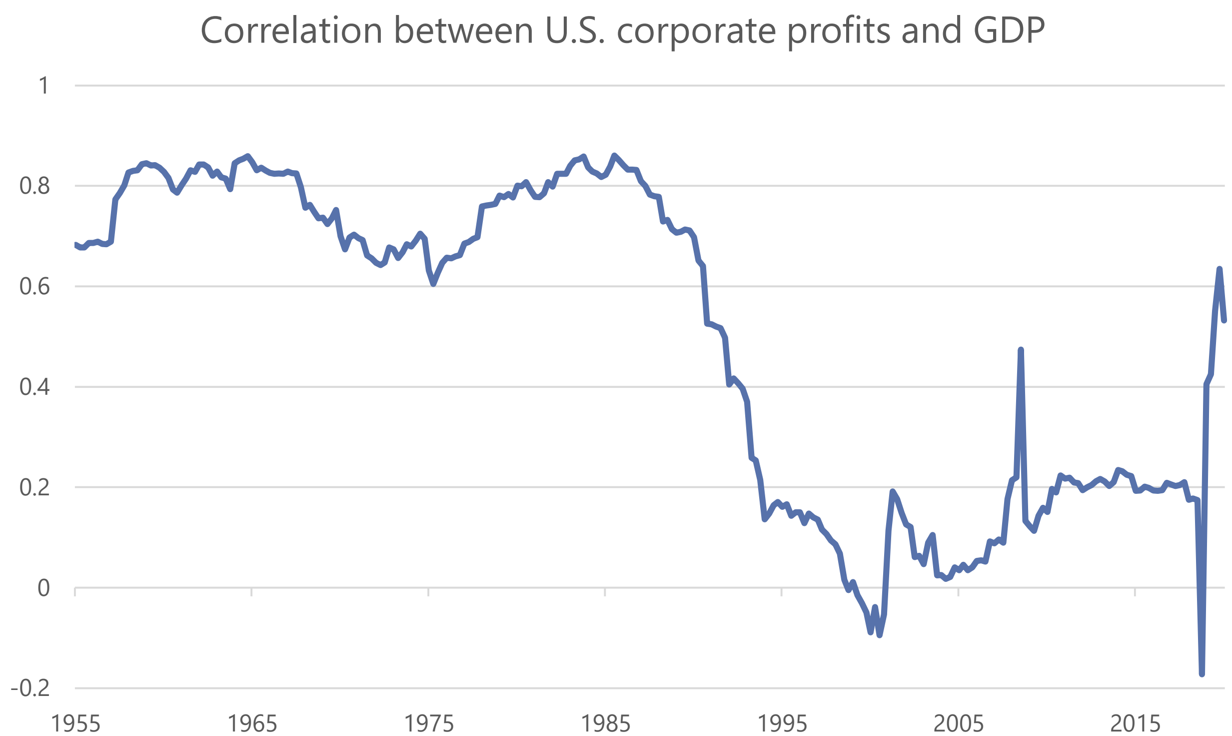
Financialization: The third component of the deflationary regime that emerged in the early 1980s was financialization — the movement of capital from productive forms of activity, e.g. commodity production and exchange, to unproductive and highly speculative forms of activity. This is reflected in the decoupling of corporate profits from "real economy" measures such as GDP growth and joblessness. The following chart demonstrates the disconnect that emerged between corporate profits and GDP in the early 1990s, with the correlation moving to negative territory in the 2000s — in other words, when the economy struggles, corporate profits are high.



Source: US Bureau of Economic Analysis

1. Financialization can be traced back to the failure of the Bretton-Woods system, which set the stage for currency volatility, and the expansion of derivatives such as futures markets from their historical home in the agricultural space to currency speculation. Following subsequent banking deregulation (which we discuss below), futures and swaps trading expanded to contracts based on interest rates and bonds, and paved the way for novel financial products, such as exotic derivatives, and for the securitization of traditional financial assets such as mortgages. In parallel to the expansion of derivative products, deregulation and financial speculation fed into the

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M&A and leveraged buyout waves of the 1980s, which often led to the direct shutdown and asset stripping of firms whose physical plant or book value was greater when liquidated than its market price.

Despite cosmetic differences, deregulation has been a thoroughly bipartisan policy, beginning with Carter who signed into law the Depository Institutions Deregulation and Monetary Control Act (DIDMC) in 1979, which Volcker counted “among the most important pieces of financial legislation enacted this century.” The DIDMC’s main purpose was to combat inflation, while tightening the Fed’s control over the money supply by imposing reserve requirements on all deposit institutions, lifting “Regulation Q” interest rate limits on banks, and opening up the banking industry to competition. The next Republican administration followed suit with the Garn–St. Germain Depository Institutions Act, signed into law by Reagan in 1982, which deregulated the savings and loan industry, allowed banks to furnish adjustable-rate mortgage loans, and blurred the line between banking and commerce by relaxing regulations on subsidiary banks. In 1982 and 1984, the Reagan administration relaxed Justice Department regulations limiting intra-industry mergers.

This, combined “with the creation of new financial instruments such as the junk bond, unleashed a hostile takeover wave that reconfigured the economic landscape,” in the words of scholar Greta R. Krippner. The following Democratic administration expanded the deregulatory effort, with Bill Clinton signing into law two further bills: the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and the Gramm-Leach-Bliley Act of 1999. The former allowed for the consolidation of large national banking chains and the latter repealed the Glass–Steagall Act of 1933, abolishing the regulatory separation of commercial banks, investment banks, and insurance companies . Gramm-Leach-Bliley, backed by both Democrats and Republicans, ratified the formation of Citigroup, which in 1988 had been granted an exemption from Glass-Steagall by the Federal Reserve when it was formed out of Citibank, Smith Barney, Primerica, and Travelers.

2. These American policies were mirrored by those of the British government under Thatcher in its efforts to limit the money supply, deregulate, and simultaneously undertake a far-reaching wave of privatization of publicly owned industries. British financial deregulation culminated in the “Big Bang” of October 27, 1986, when the Thatcher government and the London Stock Exchange opened up electronic trading, abolished minimum fixed commissions on trades, brought down the barrier between stock traders and investment advisors, and opened up the City to international banks. London soon rivaled New York as one of the leading world financial centers.

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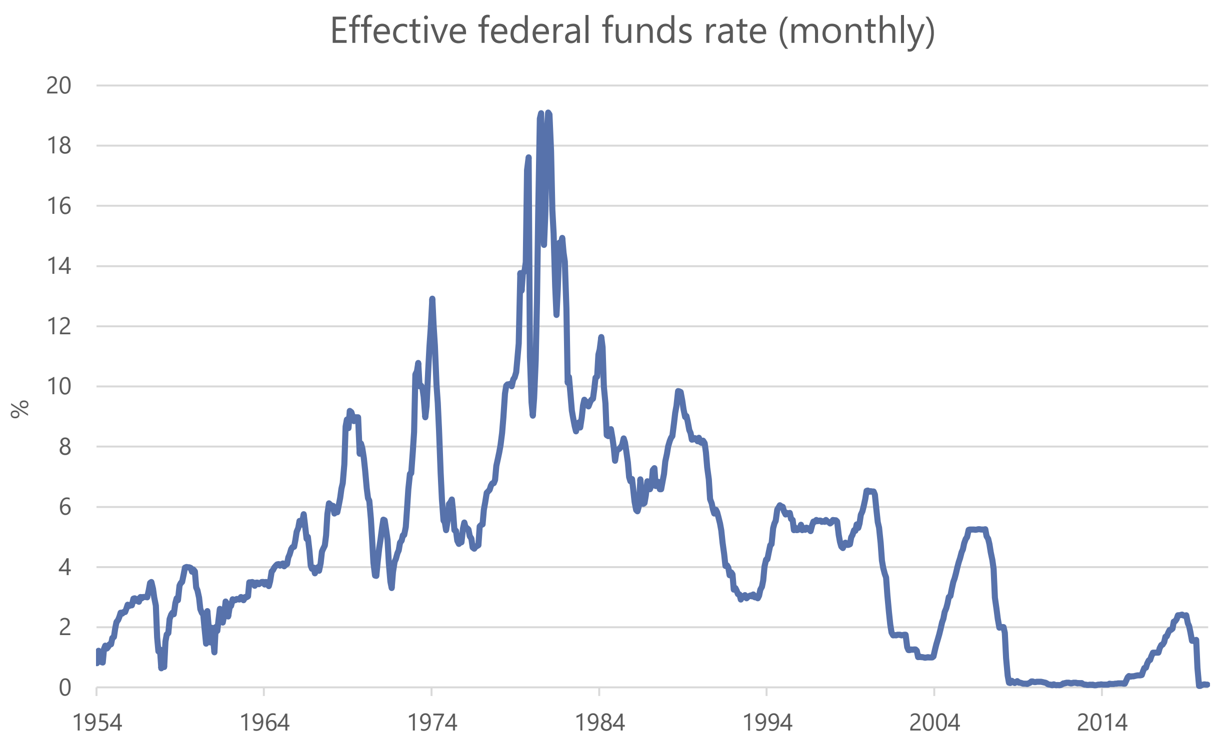
3. The appreciation of the dollar in the early 1980s solidified the greenback's status as a global reserve currency, a status which in turn helped attract further flows, creating a self-sustaining cycle. As the Reagan administration cut taxes and raised military spending, the combination of loose fiscal and tight monetary policy saw foreign creditors more than ready to buy up American bonds in what George Soros described as "the imperial circle."[5] While most apparent in the 1980s, this phenomena generally continued even after Volcker and his successors began a sequence of interest rate reduction. Finally, the dollar's status as the reserve currency protected the U.S. against the yawning trade gap, with dollar-denominated debt functioning as a currency in its own right.



Source: Bloomberg

4. Volcker's interest rate shock of 1980-1981 set a pattern for the reaction function of the Federal Reserve through subsequent decades. <u>On the one hand, the Fed intervenes when wages are too high in order to artificially trigger a recession. This is done under the guise of fighting inflation, using a technocratic, sanitized language to describe its goals (such as "the Fed's commitment to low and stable inflation as a</u>

[5] *Soros, George. "The Danger of Reagan's 'Imperial Circle.'" Financial Times, May 23, 1984. Accessed January 18, 2021. https://www.georgesoros.com/1984/05/23/the-danger-of-reagans-imperial-circle/.*

foundation of broader economic stability"[6]), rather than articulating its *political* intention, of preventing a resurgence of working class militancy. On the other hand, it has repeatedly intervened to prop up asset bubbles and support speculative activity, using theoretical rationalizations such as "the wealth effect" that are ideological in nature given the near absence of research demonstrating an economic benefit.

5. While these efforts to provide liquidity lend short-term support to the financialized economy, they have had longer term, unintended effects:

   First, each iteration of the reflationary process expands the debt burden, thus increasing the financial vulnerability of an economy where each cycle is built on further asset inflation (rather than productivity increase) and leverage. This process of financialization has therefore objectively made the U.S. increasingly vulnerable to speculative bubbles, panic selloffs, and financial crises. In each instance in which this has taken place — the Black Monday stock market crash of October, 1987; the Savings and Loan crisis of the late 1980s; the collapse of Long Term Capital Management in 1998; the technology or "dot.com" panic of 2000; the financial crisis of 2007-2008; and most recently, the "Coronavirus Crash" of March 2020 — the Federal Reserve and the Treasury Department have responded with bailouts, alternately flooding markets with liquidity and, more recently through direct purchases of debt, resuscitating share values at distressed firms.

   By lowering the real cost of capital, they have effectively lowered productivity. We see this in the proliferation of zombie companies that are incapable of generating sufficient income to pay off debt, yet able to secure seemingly endless financing given the Fed-engineered low yields in the corporate bond market (and more recently directly from the Fed itself). A recent analysis by Bloomberg of a year of operating income relative to debt obligations of firms on the Russell 3000 found that nearly a quarter, or 739 companies, failed to earn enough to cover interest costs. This was an increase of 226 from the previous year, and a collective doubling of zombie debt, to almost $2 trillion. Among the firms tallied were giants such as Exxon Mobil, Boeing, Carnival, Macy's, and all four major U.S. airlines.[7]

   While there appears to be no longer any moral hazard for American corporations, the vast outlay of unproductive capital, along with expanding structural unemployment (which we discuss below) constitute a powerful drag on productivity and growth — and will continue to be so in the future.

[6] *"The Federal Reserve: Looking Back, Looking Forward," January 3rd, 2014*
[7] *Bloomberg.Com. 2020. "America's Zombie Companies Rack Up $2 Trillion of Debt," November 17, 2020. https://www.bloomberg.com/news/articles/2020-11-17/america-s-zombie-companies-have-racked-up-1-4-trillion-of-debt.*

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6. The bailout economy has evolved in the last few decades into a massive circular flow of dollars, centered on the U.S. dollar-funded carry trade, a strategy made possible by the Federal Reserve's assurance of low interest rates and accommodative monetary policy, particularly since 2008. The outflow of dollars, which adds to the balance of payments deficit, is made up for by the "willingness of investors in other countries, notably central banks and sovereign wealth funds, to continually accumulate U.S. dollar assets," in the words of one recent study. A peculiar form of "Dutch disease" has taken hold of the U.S. economy. The term refers to the unintended consequences of a situation in which the initial benefit to a national economy accruing from a commodity's production causes an increase in the value of its currency and a corresponding decline in its manufacturing sector. In the case of the Netherlands for whom economists first coined the term, the resource in question was natural gas. In the U.S., beginning in the 1980s, the *dollar* in the form of Treasury bonds, became the essential national "export," inflating its own value and accelerating industrial decline as we explained above.

7. This central movement of the U.S. economy — the debt-fueled rise of finance, combined with the estrangement of money-making from the "real economy" and commodity production — is still in place today. Attempts to reverse or even stem it have repeatedly failed, including the "Buy American" campaign of the 1980s; the Plaza Accord of 1985 that tried to cut into Japanese markets through a devaluation of the dollar; and more recently, Donald Trump's trade war against China and tariff threats against Europe, Japan, Canada, and Mexico.

8. One consequence of the economy's distortion and financialization is the decay of the American infrastructure. <u>Production and movement of goods requires physical infrastructure. The movement of money much less so.</u>

   Crumbling infrastructure imposes new costs and undermines competitiveness. For example, estimates suggest that the U.S. economy suffers more than $150 billion per year in losses caused only by traffic congestion on roads and at airports. According to the American Society of Civil Engineers, unless $2 trillion in new public outlays on infrastructure are in place by 2025, $4 trillion in value will be subtracted from the economy. Conversely, economists agree that infrastructure investments exert a positive multiplier effect on economic activity.

   Whereas the U.S. spends 3.2% of GDP on infrastructure, European countries on average spend 5%, and China spends over 8%. The share of U.S. GDP spent on infrastructure has declined by one-third since the early 1960s, and the share of federal spending has decreased by more than one-half. Much of American infrastructure today still operates on physical systems put in place in the 1960s when the population was half its current size, and which are approaching or have exceeded the end of their estimated life span. One in four bridges in the U.S. is ranked by the federal government as deficient, and water and sewerage systems will require over $630 billion in investment over the next ten years to remain operative. The danger to public health that a failure of these systems can represent was most dramatically illustrated in 2014, with the water poisoning crisis of Flint, Michigan, the former General Motors production center.

From Social Contract to the New Gilded Age

1. The social position of American workers has steadily eroded since the 1970s. The data that demonstrates a stagnation or decline in the income and wealth of the bottom three quintiles of American society, and an increasing income and wealth accruing to the top 1%, has become well-known. To cite one recent Federal Reserve study, since 1989, the fortunes of the 1% of wealthiest households have risen by 600% in nominal terms, whereas those of the bottom 50% increased only by 60%. Wealth inequality, or the polarization of wealth and income, has reached historically unprecedented levels, perhaps eclipsing even those of 1929 — on the cusp of the autumn stock market crash — and the Great Depression. While data on 2020 is still trickling through, the pandemic has in all likelihood massively accentuated these trends.

2. "An accumulation of wealth at one pole of society indicates an accumulation of misery and overwork at the other," Karl Marx wrote. A cultural aspect of the 1980s was the unrepentant celebration of wealth in television programs such as “Dallas,” “Dynasty,” and “Lifestyles of the Rich and Famous.” Whereas John Kennedy told Americans in the 1960s to "ask not what your country can do for you, but what you can do for your country," in 1984 Ronald Reagan could ask Americans, "are you better off than you were four years ago?" The inaugural publication in 1982 of the Forbes 400 list of richest Americans was itself evidence of this cultural shift. Strikingly, the wealth of the richest individual on the 1982 list, the $2 billion fortune of shipping magnate Daniel Ludwig, would not even make the cut for the 2020 list, which required a minimum of $2.1 billion.

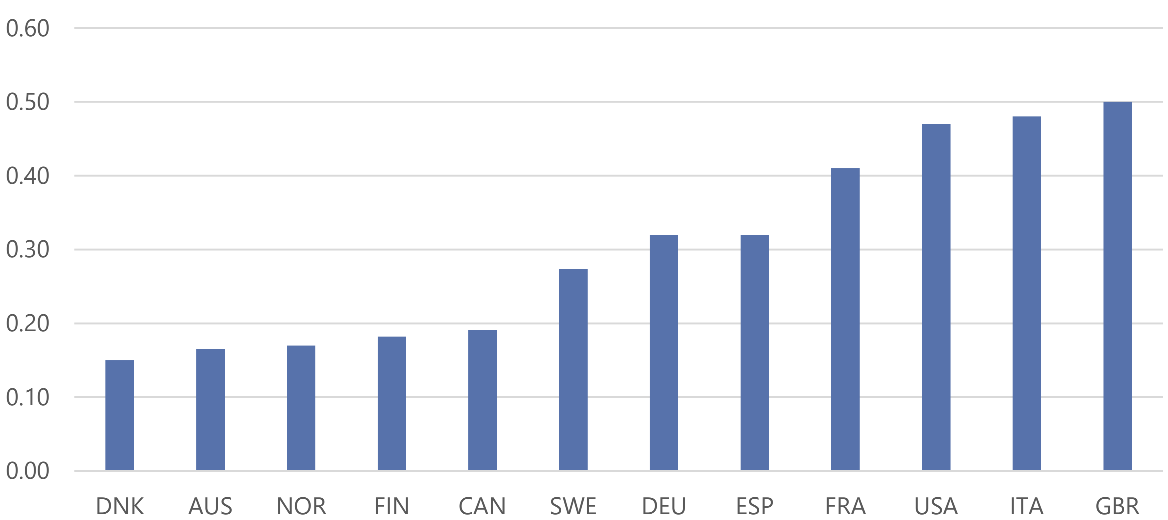
3. The massive entry of women into the workforce since the 1970s lifted the overall labor participation rate until the 1990s, even as prime working-age men dropped out of the workforce. However, the last decade has seen a decline in the labor participation rate of both women and men. The overall labor participation rate is currently at about 61%, down from 67% in 2000. The decline has been mostly concentrated in prime

working-age men with a high school degree or less. Among OECD countries, the U.S. ranks 21st in terms of its employment rate — the share of the 15-64 age group working — just ahead of the Russian Federation but below Slovenia. The "economic displacement" of workers has been concentrated among those with little education, a growing retired population, an increase in physically disabled people, and the size of America's prison population, by far the world's largest, with nearly 2.2 million people incarcerated, as well as another 4.5 million on probation or parole and therefore severely limited in their work opportunities. This enormous structural unemployment, not accounted for in the official jobless data, explains to a large extent the failure of the Phillips Curve, which insists that the low unemployment of the last decade should have led to wage inflation.

4. One popular tenet of the American Dream is that children will reach a higher step on the social ladder than their parents. Yet studies have demonstrated that intergenerational social mobility is lower in the U.S. than in almost any other OECD country, and that within the U.S., intergenerational social and occupational mobility has declined for decades, such that the millennial generation earns less than previous generations.

The strength of the link between individual and parental earnings varies across OECD countries*

Intergenerational earnings elasticity: estimates from various studies



** The height of each bar measures the extent to which sons' earnings levels reflect those of their fathers. The estimates are the best point estimate of the intergenerational earnings elasticity resulting from an extensive meta-analysis carried out by Miles Raymond Corak (2006) and supplemented with additional countries from Anna Cristina d'Addio (2007). The choice of empirical estimates in this meta-analysis is motivated by the fact that they are based on studies that are similar in their estimation technique, sample and variable definitions. The higher the value, the greater is the persistence of earnings across generations, thus the lower is the intergenerational earnings mobility.*
Source: OECD – Economic Policy Reforms – Going for Growth, 2010

Another sharp expression of declining living standard is the decline in U.S. life expectancy over the past several years (before even accounting for the impact of the pandemic). This phenomenon — rarely witnessed in history outside of wars, major economic crises, and natural disasters — seems to be driven by "deaths of despair," as one recent book phrases it: the opioid epidemic, drug and alcohol abuse, suicide, and lack of access to adequate health care. Declining life expectancy has paralleled a decline in birth rates, similar to that which took place in the Great Depression, such that it is anticipated that American population growth after 2030 will depend on immigration, a prospect increasingly unlikely given the political winds. Natural population increase — the number of births minus the number of deaths — was at its lowest on record in 2018, according to the Census Bureau. It had not been so low since 1918, the year of the Spanish Influenza pandemic.

5. The economic processes highlighted above, and their social impact, have reached a climax with the catastrophic impact of the Covid-19 pandemic. The pillars holding up the four decade-old disinflationary regime — financialization, globalization, and the containment of wage increases — had already begun to wobble prior to 2020.

   The Covid-19 pandemic has underlined the conflict between globalized economic and social life, and the nation-state system. While the disease moved quickly across borders, national governments acted one-by-one in response, typically in competition with each other. The pandemic has highlighted the dependence of the American consumer on global producers. In spite of Washington's trade war measures, it is on track to register its highest ever trade deficit. As for financialization, in response to the Covid financial crash of March, the Fed responded with an intervention that dwarfed that of 2008. Yet, this has had negligible impact on the lives of the majority of the working population, which suffered through the greatest social dislocation since the Great Depression. The immiseration of the American population in the face of seemingly endless financial largesse for the markets — and the spiraling wealth of the very rich — is a further destabilizing impact on domestic politics.

Shift in Consciousness

1. There was growing evidence that even prior to the pandemic, the historical epoch introduced by Volcker and Reagan was coming to an end, to be replaced by a period of mounting social and political opposition. For example, according to Pew, whereas 80% of Americans "trusted the government in Washington" in the Johnson administration during the mid-1960s, that figure had fallen to roughly 20% by Trump's first term. A recent Gallup analysis has shown that, nearly three decades after the

collapse of the Soviet Union and its embrace of capitalism, 49% of millennials and Gen Zers hold a positive view of socialism.

The oppositional political mood was also reflected in the insurgent campaigns of the the self-styled "socialist" senator from Vermont, Bernie Sanders, in 2016 and 2020 — though Sanders' actual policy proposals fall within the social reform traditions of the Democratic Party. In back-to-back primary seasons, Sanders threatened to derail the chosen candidates of the party establishment, Hillary Clinton and Joe Biden. This mood is also expressed on the right wing of American politics in the figure of Donald Trump, who departs from traditional political norms in many ways. His open defense of far-right political tendencies, elevation of the military, and "America First" nationalism, mirror fascist movements of the 20th century. This reached its most stunning form in the attack, by far-right mobs, on the U.S. Capitol building on January 6th, 2021.

The resurgence of populist politics — defined by demagogic appeals to "the people" or "the nation" against "the elite" and globalization — has not been confined to the U.S. In the French presidential elections of 2002, neo-fascist candidate Jean-Marie Le Pen reached the run-off phase against Gaullist Jacques Chirac. In 2005, French voters handily rejected the Treaty establishing a Constitution for Europe. In Italy, the collapse of the traditional parties of the left has primarily benefitted the demagogic Five Star Movement in the past decade or so. In Greece and Spain, two left-wing parties that rhetorically embrace socialism, Syriza and Podemos, respectively, have reached government. In the 2016 referendum, British voters made the United Kingdom the first-ever country to leave the European Union, and in 2019, elected Boris Johnson, whose political persona resembles far more that of Donald Trump than that of an orthodox Tory politician.

2. Electoral outcomes in the U.S. are a distorted reflection of popular sentiment. Prior to 2020 elections, the U.S. ranked 26th of 32 OECD countries in voter turnout, with voter participation monotonically parallel to the income scale, with each income tranche posting higher voter participation than the income tranche immediately below it. In the 2012 elections, just over 80% of those earning more than $150,000 voted, while slightly less than 47% of those making less than $10,000 did. In the 2016 presidential elections, only 48% of families in the lowest income bracket cast ballots, whereas in the highest bracket, 86% did. While voter suppression efforts played a major factor in this disparity — lack of transportation, setting election day on a work day, etc. — academic research has shown that low voter turnout has been driven to a large extent by a sentiment of effective political disenfranchisement among poorer layers of the American population.

3. While the data is still being compiled and analyzed, it appears that the 2020 election marked a sharp departure from this trend. It is believed that over 6 million more low-income voters turned out in 2020 than in 2016. Defying the media stereotype, working class voters broke for Biden by an 11.5 point margin, paced by a shift of poor white voters. Meanwhile, households with income of more than $100,000 shifted toward Trump. The total vote in 2020 was the highest by far in American history in aggregate numbers. As a percentage of the voting population turning out — 66.7% — it was the highest since the election of 1900. And this, in spite of the pandemic and often cumbersome mail-in voting procedures![8]

4. While voter turnout, opinion polls, and political rhetoric provide a window on heightened levels of social conflict, an even more graphic illustration is given by the social opposition emerging *outside* of traditional American politics. One example is the surge in strike activity. The Economic Policy Institute reports that the average number of workers involved in major work stoppages in 2018 and 2019 was over 450,000 workers, the largest two-year average in 35 years. The heightened strike activity has continued in spite of the Covid-19 pandemic, with major walkouts and work stoppages taking place among autoworkers, teachers, and graduate students, most recently in the spring of 2020 at non-union companies including Amazon, Whole Foods, Perdue, and Instacart.

   Following the police killing of George Floyd in Minneapolis on May 25th, 2020, the U.S. witnessed the most widespread and sustained demonstrations since the late 1960s. Protests took place in hundreds of cities and towns and in all fifty states. In response, governors and mayors deployed heavily armed police. While the White House threatened martial law in Washington D.C., heavily armed right-wing counterdemonstrators took to the streets in a number of cities, leading to deadly exchanges in Kenosha, Wisconsin, and in Portland, Oregon. These events, without precedent in recent U.S. history, are indicative of a highly combustible social and political situation.

Conclusion Part II: The Pandemic Tipping Point

Our view is that the massive transfer of wealth, engineered through the restructuring of the U.S. economy over the past few decades, has reached its outer limits. What allowed the U.S. economy to carry on despite underlying weaknesses were a series of "coping mechanisms." These are no longer available as they previously were.

[8] "The 2020 Election by the Numbers." n.d. Council on Foreign Relations. Accessed January 22, 2021. https://www.cfr.org/blog/2020-election-numbersl; William J. Barber, and Liz Theoharis. 2020. " What Biden and Harris Owe the Poor." The New York Times, December 25, 2020, sec. Opinion. https://www.nytimes.com/2020/12/25/opinion/biden-harris-agenda-poverty.html.

II. ULTRA-CAPITALISM AT A BREAKING POINT

1. The rollback of Volcker's high interest rate regime of the early 1980s allowed Americans to benefit from the extension of cheap credit to consumer spending and housing. Meanwhile, the proliferation of imports from East Asia meant that many everyday consumer goods were cheap and abundant. Inflation took its revenge only in areas of the economy that could not be replicated by inexpensive foreign inflows — most notably health care, higher education, and housing.

2. The U.S. dollar's role as de facto world reserve currency was perhaps the most effective coping mechanism of all, allowing both the public and private sector to pile up enormous levels of debt, and for the Fed to pursue credit easing with little consequence — America's "exorbitant privilege." Yet that spigot of cheap credit is predicated on the dollar maintaining its reserve currency status. The multi-decade process of financialization, physical hollowing out, and deteriorating productivity of the U.S. economy on one hand, and the rise of China (by certain metrics already the world's largest economy) and the yuan on the other increasingly weakens the viability of that option, ensuring that future bubble reflating policies will further undermine the dollar's status, and likely come at the cost of inflationary pressure.

3. The situation for many working-class Americans can only be described as unbearable. While the official unemployment rate declined to 6.7% by the end of December after peaking at roughly 15% in May, there is general agreement that "many of the jobs are not coming back," and that high levels of structural unemployment will last for some time. An estimated 1 in 8 American households are defined as "food insecure," and tens of millions of Americans face the prospect of eviction. According to a bank survey released in December 2019, nearly 60% of American adults have less than $1,000 in cash savings. The Federal Reserve's 2018 Survey of Household Economics and Decision Making found that 40% of American households could not afford an unexpected $400 expense. **It is our view that such dire social conditions are highly likely to provoke increased social and political opposition.**

4. The ideological buttressing of the bailout economy has also been steadily eroding. The triumphalism of western capitalism that prevailed after the demise of the Soviet Union is now obsolete. The word "socialism" appears with increasing frequency in the media. The celebration of globalization has likewise given way to bitter denunciation of immigration and loud demands for trade wars.

5. Concepts like "outsourcing," "offshoring," and "race to the bottom" have been used to describe the impact of globalization on the older industrialized economies. Globalization drew away many jobs in manufacturing and service, which imposed a downward pressure on worker pay in the U.S. and other countries. In manufacturing, a

high proportion of these jobs were unionized. However, the same process has increased wages and purchasing power in "third world" countries, limiting future labor cost savings.

As a result, some American companies are even shifting back their production to the U.S. in order to limit transportation costs and benefit from generous government subsidies and tax waivers. Moreover, earlier technological advances in transport, travel, and telecommunications that underpinned globalization's cost savings are no longer likely to produce the same rate of efficiency-generation for the foreseeable future. **The endemic problem of the 1970s — declining profit rates — have reemerged with a vengeance.**

6. Many analysts argue that the long deflationary regime inaugurated by Volcker, Thatcher, and Reagan is coming to an end, and that a new epoch is dawning. It is less clear what this new epoch portends. There are those who wager on the assumption, or hope, that American political and corporate leaders will ultimately be compelled, in the name of self-preservation, to make rational choices. They assume that a reformist road is possible and historically necessary, perhaps "a new Marshall Plan" for the economy or a "Green New Deal" that would entail massive investments in infrastructure, green technologies, and some level of wealth redistribution. They arrive at this conclusion by process of elimination. It is widely agreed that monetary policy has failed, or at least that monetary solutions to future crises will not suffice. Therefore, the reasoning goes, the solution must be fiscal. Advocates of this position, particularly the Modern Monetary Theory crowd, point to on-going low costs of financing government debt. If money is effectively free to governments, by virtue of central banks issuing low-interest debt for its activities, why then should they not set into motion grand infrastructure projects? As further evidence, they point to a shift toward fiscal solutions among policymakers, including the various rescue packages put in place in response to Covid-19, a turn toward fiscal solutions that is understood as part and parcel of the emergence of a new inflationary period in the global economy. Trade wars, immigration restrictions, a weaker dollar, and the pandemic's disruption of supply chains will also contribute inflationary pressures, while firms that hold economic chokepoints or monopolistic positions in the economy will be able to charge more for existing services and product distribution.

7. However, the preponderance of evidence in government policy decisions in response to Covid-19 hardly points to a new epoch of social reform. In the U.S., Japan, and Europe, the pandemic has resulted in the opening of the spigots primarily to the benefit of financial assets. "Stimulus" support for workers, households, and small businesses have been derisory in comparison, even though they are used politically to

justify massive outlays to large corporations. Meanwhile government budget shortfalls, most notably at local and regional levels, have been met with austerity.

In the medium term, the economy that emerges from the pandemic will be riddled with overcapacity — which is deflationary. In the medium- and long-term, the economy will be massively indebted — also deflationary. These same factors dominated after the post 2008-2009 recovery and every other post-recession recovery since the 1980s. To overcome these tendencies and tip the scales toward inflation would require a massive and direct expansion of the money supply, in which the Fed and other central banks effectively transform their debt liabilities into legal tender. Opening this Pandora's Box, however, could lead to a sudden collapse in the dollar. Alternatively, a solution depends on a *deus ex machina*, such as the emergence of a transformative new technology akin to the automobile's impact on the economy a century ago. This seems highly unlikely. While the past half-century has not suffered for lack of important new technological developments, long-term falling rates of profit indicate that each new technological innovation — while it may favor in the short-term this or that sector of industry — on aggregate, squeezes less and less blood from the turnip.

But, for the sake of argument, let us allow that a new era of social reform is economically feasible. Whether or not there will be such a development is not only determined by what is mathematically possible, much less what would be scientifically rational, but by the social physiognomy of the corporate, political, and economic leadership in the U.S. and other leading countries. Reformist efforts such as infrastructure projects have been both possible and rational for many decades. During the epoch of deflation and secular stagnation of the past four decades it was never the case that there was not money available for items such as transportation, education, and wage increases. It was that this money did not escape its circuit of motion between the central banks, the finance houses, the corporations, and the very wealthy, to find productive and profitable outlet in the real economy. From the standpoint of the real economy, and real people living in it, the money supply did not expand. They worked harder and earned less. The money was used for such ventures as share buybacks and mergers and acquisitions, and to grow the fortunes of the very wealthy.

8. The question posed by the current juncture is this: Will American corporate, financial, and political leaders respond to the growing restiveness of the population with a new social contract, predicated on massive investment in infrastructure, green technology, education, and health care? Our analysis is that it will not. The four decades of the previous regime has changed the social physiognomy of corporate, financial, and

political leadership.

9. That there is no longer a constituency for reformist politics is not new. As we wrote in in our previous installment, "The late 1970s announced the end of the postwar social contract, which had insured an epoch of class compromise." The period preceding it, the epoch of social reform and class compromise, American policy makers were guided by long-term thinking that reflected an industrial economy still in its ascendancy. In the context of the ideological rivalry with the Soviet Union, the U.S. could offer social concessions, secure in the knowledge of the strength of its productive capacity. The financialized economy produces a different sort of leadership. It is not guided by long-term, developmental thinking, but by short-term, predatory, and profit-driven calculations.

   This leaves open the likelihood that various forms of social conflict, especially labor conflict, will continue to intensify. If inflation becomes a factor, even in the short term, history teaches that this will only accentuate labor conflict. There is the possibility that a strike wave could emerge in the U.S., similar in dimensions to those of the 1970s, 1930s, and the period surrounding World War I. This would radically alter the financial, economic, and political landscape.

10. There is another critical question that escapes the more optimistic reform scenarios: Will the U.S. political, military, and corporate leadership tolerate, peacefully, China's ascendancy and a trajectory that inevitably leads to the eclipse of the U.S.? Or will we see a response in the military realm, the only remaining uncontested area of U.S. preponderance? The pandemic, we have stated, has acted as an accelerant to processes already in development. China's challenge to U.S. geopolitical hegemony has been thrust forward by its effective response to Covid-19, compared to the utterly disastrous response in the U.S. Indeed, the Chinese leadership occupies today a roughly analogous historical position to that of its counterparts in the U.S. almost a century ago. Evidently planning for the longer term — secure in its conviction that it will become the world's greatest economy — China appears to have been guided by science in its response to the pandemic, as opposed to the U.S., where short-term profit interests and entrenched anti-scientific thinking has created the most catastrophic Covid -19 event among western economies.

    In the next installment of this series we turn to China's economic development over the preceding four decades, which occurred in tandem with, indeed in symbiosis with, America's financialization and economic decline.

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