{A very brief introduction to the birth of Neoliberalism in the U.S. A chapter in *Neoliberalism: A Critical Reader*, Pluto, projected publication in fall 2004. Please do not quote without permission of the author. Al Campbell, University of Utah}

THE BIRTH OF NEOLIBERALISM IN THE U.S: A REORGANIZATION OF CAPITALISM

I. Introduction

Preliminary considerations of neoliberalism thrust four questions to the fore: what, why, how and where. What is neoliberalism? What distinguishes it from the form of capitalism that preceded it? Why did capital impose this reorganization of capitalism? This question is particularly important to address in that capital's central concern, its rate of profit, has generally performed worse in the 1980s and 1990s than it did under the previous Keynesian Compromise organization of the 1950s and 1960s. How was this reorganization achieved, what changes in policies, practices and institutions constituted the change? And finally, where is neoliberalism going?

This chapter will address the third question, how this reorganization of capitalism was achieved, in the case of the United States. It will focus on changes in policies, practices and institutions on the one hand, and the effects on the working class on the other. It will be necessary to briefly comment on the first two questions, "what" and "why," as background for the discussion here on "how."

Four brief comments are important for indicating aspects of the frame that will be used here to consider neoliberalism.

First, neoliberalism is not I) globalization, ii) the internationalization of production as some inevitable result of technological changes, particularly in telecommunications and transportation, nor iii) the inevitable result of intensified international competition. Neoliberalism is an organization of capitalism. There are important international aspects of the neoliberal organization of capitalism, just as there were important international aspects of every previous organization of capitalism. These international aspects, however, like its domestic aspects, can be properly understood only in terms of the goal and purpose of capitalism itself.

Second, as will be apparent in the presentation in this chapter, the birth of neoliberalism in the United States was a process that extended over many years . It is only within that framework that I date the beginning of neoliberalism to 1979, for reasons I will expand on below. The point I want to stress here is all the qualifications that go with this "birth date" that come immediately from seeing this as only one step in a process.

Third and fourth, I will argue that two common "stylized facts," accepted by a number of Marxists and other radicals, are often misinterpreted: that neoliberalism represent the return to hegemony of finance capital, and that the essence of the Keynesian Compromise organization of capitalism was a capital-labor truce. While these can be useful shorthand ways to refer to certain relations, I will argue they are often understood in ways that are contrary to the realities they refer to. Both of these issues are important to how I approach the main topic of this chapter, neoliberalism as a reorganization of capitalism.

II. What Is Neoliberalism And Why Did Capitalism Adopt It?

What is neoliberalism? There is a danger in the stylized fact that "neoliberalism represents a return to hegemony of finance capital." This shorthand expression suggests to many people that finance capital imposed itself, its will and its program, on non financial capital. The transfer of profits from non financial capital to financial capital in the US indeed did increase dramatically under neoliberalism. This consideration poses the question: given that finance capital was roughly 15% of total capital in the US before neoliberalism (and grew to roughly 25% under neoliberalism), how could this minority impose its will on the majority of capital? Why did non financial capital, the majority of capital, allow this increased transfer at its expense to a minority of capital? While I hold that it is important to recognize that most finance capital never accepted the Keynesian Compromise and always advocated an immediate return to economic liberalism, I also hold, as opposed to the `return to hegemony' thesis, that the key is to understand why productive capital subscribed to Keynesian ideas after WWII and then came to abandon nearly all of them by the 1970s and 1980s. This approach makes clear that the issue is not if financial capital has power over non financial capital, which by in large it does not, but rather why the main part of capital, productive capital, switched to accept the ideas that the smaller financial capital had always advocated, but which were (partially) rejected under the Keynesian Compromise.

Similarly, a number of people hold that a capital-labor truce that allowed a meaningful amount of the expanding national wealth to really "trickle down" to labor was the essence of the Keynesian Compromise (eg, Bowles et all, 1983, 1990), and hence the essence of neoliberalism was the abandonment of this truce. The historical record, however, just does not support a story of capital-labor peace, though it needs to be interpreted very carefully. On the one hand, class conflict continued throughout the post WWII period, and was an important causal component of labor's gains in compensation: they were not a "gift" by a Fordist capitalism consciously and willingly raising wages in what it perceived as its own interests. On the other hand, there was a "social understanding," a social accord, a generally (not universally) accepted social norm, as to what the continuing class conflict between capital and labor would be fought over, and what was for the present (though this continually changed over time) not under contention. One part of neoliberalism was an end to this social understanding or accord.

Neoliberalism is a reorganization of capitalism. After WWII, capital decided that a particular set of restrictions on the behavior of individual capitals would be beneficial to the goal that capital has always had, accumulation. There were two reasons for this decision. One was fear. While US capital never experienced a serious fear of the overthrow of capitalism at home, reading its discussions from 1945 to 1955 make clear the deep fear it had of an extension of Soviet type economic relations, and the importance this played in generating support for some of the measures discussed here, for example capital controls in Europe. But it would be a serious overstatement to claim that the policies, practices and institutions that defined Keynesian Compromise capitalism flowed exclusively from a fear by capital of the overthrow of its system. Equally important, capital adopted Keynesian ideas because it believed that the various restrictions and regulations would be beneficial to the process of capital accumulation at that historical moment, particularly in comparison with the poor record of accumulation presented by its recent experience without those restrictions in the Great Depression. Neoliberalism consisted of the negation of a number of those restrictions and regulations.

It must be stressed that neoliberalism is not about 'letting markets operate freely,' or about removing government regulation of markets in general. Markets never operate freely. The assertion they do so is part of neoliberal ideology. Both markets themselves and the environments they operate in are always created by government regulations, and cannot exist without them.

Why did capitalism adopt neoliberalism? Broadly, there was a structural crisis of capitalism. That is, the policies, practices and institutions that had been serving well capitalism's goal of capital accumulation ceased to do so. More narrowly, one can say capitalism abandoned the Keynesian Compromise in the face of a falling rate of profit, under the belief that neoliberalism could improve its profit and accumulation performance.

With these very brief statements of "what" and "why" to establish the frame used in this work to consider neoliberalism, I will now turn to the main topic of this chapter, "how" this reorganization was achieved: what changes in policies, practices and institutions constituted neoliberalism.

III. The Birth of Neoliberalism in the U.S.: How Capitalism Was Reorganized

Keynesian Compromise capitalism was born as a reaction to the greatest crisis of the international capitalist system to date, the Great Depression of the 1930s. It consisted of three broad new types of policies, practices and institutions. The first consisted of specific restrictions on certain behaviors of some capitals, above all finance capitals, both domestic and international behaviors. The second consisted of macroeconomic intervention policies to stimulate the economy, both monetary and fiscal. The third consisted of certain labor and welfare policies. The negation of those policies, the birth of neoliberalism, was a process that spanned many decades.

A. The Elimination International Capital Controls and the "Re-emergence of Global Finance"

The existence of capital controls on international capital activity was nearly universal throughout the capitalist world after WWII, in the advanced capitalist countries as well as in the Third World. The outstanding exception was the United States, which had very few restrictions on international capital movements other than for a short period in the 1960s.

The starting point for understanding this advocacy by capital, which right after WWII was overwhelmingly US capital, in favor of international capital controls was, as always, its interest in creating the optimal conditions at a given moment for accumulation. The moment, and the consciousness of capital at that moment, was strongly influenced by the recently experienced Great Depression. Broad sections of productive capital came to hold that financial liberalism was antithical to the stable environment needed for production and growth, which were necessary for optimal accumulation. In regards to international capital movements, speculative international capital was held to have contributed to balance of payments crises and price instability that had undermined international trading, which in turn was one important component of the Great Depression and profit losses for productive capital.

Banking and financial capital (and of course some representatives of productive capital) never accepted either the broad rejection of liberalism and what in the 1990s became known as "market fundamentalism," nor the specific rejection involved in capital controls. In schematic terms, while productive capital requires conditions appropriate for production (and sale) of

commodities, financial capital desires an environment where it is permitted to do whatever it chooses in the pursuit of its own profits. As a logical possibility, it might be that the actions of financial capital harm the environment for productive capital to produce and sell and thereby make profits. That is in fact exactly what productive capital came to believe as a result of the Great Depression. Financial capital, to the contrary, largely continued to adhere to the liberal line, that unregulated markets always work best, including financial markets.

The beginning of the widespread elimination of the near universal capital controls, which as one would expect did not occur all at once, was the first major campaign of the birth of neoliberalism. By 1958 European countries felt they had accumulated enough international reserves, primarily dollars, that they could restore currency convertibility. New York banking circles were pleased, and were now able to take on a significantly greater role as the lender to the world that they had fought for since 1945. Productive capital also backed this change at that time. Their concern had always been creating conditions suitable for trade. Speculative capital will always attack any currency not backed by sufficient reserves, and thereby cause a disruption of trade, as in fact happened during the ill conceived attempt promoted by the New York banks to move Europe immediately to full convertibility in 1945-7. As discussed thoroughly at Bretton Woods, capital controls require currency controls to be fully effective, since otherwise capital will avoid the controls under the guise of current account transactions. But currency control is itself detrimental to trade. Hence productive capital was happy to see these restrictions removed as soon as the countries had the reserves necessary to prevent disruptive speculative currency attacks. Long term capital controls were not removed.

At the same time Britain was experiencing problems in its Sterling balances, and in 1957 imposed restrictions on financing trade outside the Sterling area by British banks. As a response (what we would today call a "financial innovation"), the banks began to extend dollar credit against the dollar deposits they had from foreign customers. When the restrictions were lifted in 1959, the banks decided to continue with what had turned out to be a profitable business. The British government, which was promoting the rebuilding of London as an international financial center, allowed the Euromarket to physically be located in London, but be exempt from most British financial restrictions and regulations. The Eurodollar market was born. In 1963 Britain allowed it to expand to the issuance of bonds.

The Euromarket was very much a compromise. While the elimination of exchange controls in 1958 was a big step in eliminating capital controls (and weakening remaining ones), it was far from ending them. The Euromarket provided a largely unregulated arena for international capital transactions as desired by financial capital (and hence supported by the US Treasury and Fed), but at the same time it left capital controls in place in Europe as desired by the Keynesian concern for the ability to regulate one's domestic economy (frequently referred to as "policy autonomy").

Increased lending by the US banks on top of the already existing balance of payments deficit generated a balance of payments problem, if not quite a crisis. With foreign holdings of US dollars continuing to climb, the first run on the dollar occurred in October 1960. The US was unwilling to drive up its interest rate to attract international capital. It applied as much pressure as possible on foreign governments and even private citizens to hold dollar assets, and the expansion of the Eurodollar market helped significantly in this respect. But with US balance of payments continuing to stay negative year after year, the US turned to implementing various capital controls starting in 1963. This of course increased greatly the importance of the

Euromarket to US financial capital. It moved into the market massively in the 1960s, and this unregulated market came for a time to replace New York as the center for international capital transactions.

With large amounts of capital now relatively unregulated, pressure on the dollar kept increasing. But the United States refused to correct its balance of payments problem, gold continued to drain from the US, and eventually the Bretton Woods exchange rate system crashed. After the US ended its backing of the dollar with gold in August 1971, two years of negotiations followed on how the international exchange system should be reconstructed. Europe and Japan argued for adjusting the exchange rates to realistic levels and then re-establishing fixed exchange rates, backed by significantly strengthened capital controls based on international cooperation. But the United States rejected this approach in favor of the neoliberal approach: remove all capital controls, and let exchange rates float. Faced with a currency crisis in February 1973, the US announced it would end all capital controls by December 1974, and in fact eliminated them by January 1974.

The main cause for this major shift was the diminished relative economic power of US productive capital, which manifested itself in the continual balance of payments deficits. Faced with this, the United States decided to use its continued dominance of world financial markets to support its deficits at a sustainable level. Two other factors contributed to this change. First, because of the tremendous expansion of U.S. owned productive capacity overseas over the 1960s, productive capital came to strongly oppose all international capital controls, both domestic and foreign, for its own operational reasons. President Johnson implemented the first capital controls on direct foreign investment in 1968 to try to alleviate the ongoing balance of payments problem, and business interests responded by lobbying Nixon during the election campaign for the removal of capital controls. Second, after 1973 OPEC suddenly had a huge amount of capital that it wanted to invest. Europe, Japan and the Arab countries all favored channeling significant amounts of this through the IMF to alleviate the oil price-hike induced deficits around the world. The US blocked such efforts in the name of free financial markets, knowing that left the capital only one place it could be absorbed: US financial markets (including Eurodollars), thereby underwriting the US ability to continue running its deficits.

B - The Reduction of Restrictions on Domestic Finance Capital

There are four fundamental types of regulations governments put on finance capital: fraud, disclosure of information, protection of investors' assets, and competition. Only the last of these regulations has come under attack by neoliberalism. Since a negligible amount of business borrowing was done in the commercial paper market at the beginning of the Keynesian Compromise period, for reasons of space I will focus here on bank regulation.

There were four main regulations limiting competition. All except one (and that one was chipped away at) were to fall to neoliberalism: Regulation Q, separation of financial and nonfinancial firms (no universal banking), separation of commercial banking from investment banking and branching restrictions.

"Regulation Q" were ceilings on the amount of interest banks could offer on deposits. The purpose was to promote production and growth by keeping the interest rate low at which productive capital could borrow. Finance capital of course to the contrary was interested in getting as high returns on its loaned capital as possible, that is, as high as the market for loans would support. Through the 1950s and early 1960s market interest rates were generally

comparable to the Regulation Q limits, so there was no large incentive to eliminate then. Following the credit crunch of 1966, but more generally as nominal market interest rates rose, that changed.

Two fundamental ways were created to circumvent Regulation Q. The first was simply to loan the money directly to the borrowing corporations. Commercial paper was only 2% of short-term business financing in 1960, but it was up to 7% by 1970 and 10% by 1980. The second way was for banking and nonbanking financial institutions to develop a plethora of financial instruments that operated like the instruments restricted by Regulation Q, but which were unrestricted because they were technically different. As one example, investment companies developed money market mutual funds, which appeared to customers equivalent to savings accounts, but actually involved the company pooling small investments to buy large commercial paper and T bills. By the end of the 1970s these funds amounted to nearly $200 billion dollars, about 15% of the assets of all commercial banks at the time. By 1980 it was clear that Regulation Q was ineffective at keeping down interest rates. The 1980 Depository Institutions Deregulation and Monetary Control Act mandated a complete phase out of interest rate ceilings by 1986.

The separation of commercial from investment banking was similarly intended to limit the power of financial capital, and thereby its ability to raise interest rates at the expense of productive capital. The regulations on what each could and could not do were extensive and detailed, but two key provisions were that investment banks could not take deposits of any kind, and commercial banks could not underwrite corporate securities (or even hold other than regulator approved corporate securities as part of their assets). Over the 1980s and 1990s, these restrictions were largely eliminated.

Both Regulation Q and the separation of commercial from investment banking were parts of the Banking Act of 1933 (commonly called the Glass-Steagall Act), the foundation act for the whole restriction of domestic finance during the Keynesian Compromise. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 repealed most of what was left of the Glass-Steagall Act, and certified the existence of the neoliberal domestic financial order that was by then already very largely in place.

One Glass-Steagall restriction that has not yet been eliminated is the prohibition against a single company doing both banking and commerce, "universal banking." Over time, that too has been chipped away at. The auto companies have been allowed to operate major credit services for purchasing automobiles, and General Electric Capital has become a major financial institution. By in large, however, the restrictions against universal banking are still intact.

The 1927 McFadden Act proscription against interstate bank branching was intended to assure that credit would be available to small scale local productive capital, which it was feared would not be the case with large national banks with local branches. On the one hand, these restrictions were partially innovated around throughout the Keynesian Compromise period. On the other hand, the innovations never overcame the basic restriction on the prerogative of the major sections of financial capital to pursue their profit interests in whatever way they considered optimal. In 1994 the Riegal-Neal Interstate Banking and Branching Efficiency Act provided a three year phase in of the almost complete elimination of branching restrictions.

C - Neoliberal fiscal and monetary policies.

As discussed at the beginning of this chapter, neoliberalism sees the key to optimal accumulation of capital as establishing a "free market" regime and protecting the value of money. The simple neoliberal theory of fiscal policy follows from this. Government spending should only be on those things markets cannot do (and they consider that list to be very short), and taxes should be levied to pay for those activities. There is no role for fiscal policy concerning the performance of the macro economy (in particular, to provide increased growth or employment as proposed in Keynesian thought).

In practice fiscal policy during the post 1979 neoliberal era in the US has often been very non neoliberal. This is not because of the massive military spending increases under Reagan and Bush Jr.. On the one hand, those were partially offset by cuts in government provided services, but on the other hand, even if it isn't offset, military spending is something only the government can do and so any levels thought to be necessary are compatible with neoliberal thought. The fiscal policies have been non neoliberal because the spending has not been covered by taxes, they have run large domestic deficits. This in general is inconsistent with the neoliberal goal of protecting the value of money. Under Reagan, inflation was avoided by the large inflow of foreign capital that financed his deficit. It is far from certain that this same result will obtain for the large Bush Jr. deficits.

Under Keynesian thought, the prime role of monetary policy is to promote production and growth by maintaining a relatively low real interest rate. Real interest rates were typically one to two percent in the 1950s and 1960s, and negative for much of the 1970s. With the onset of neoliberalism they jumped to near 4% and higher in the 1980s.

Three things came together in the late 1970s that led to the final consolidation of neoliberalism, and monetary policy was the instrument used to enact the new policy. First, economy wide profits continued to fall. Second, inflation took off again. The business community and the Carter administration blamed these on labor compensation, which continued to rise at about 2% a year in real terms since after the 1973/74 recession, even though productivity growth had dropped to almost nothing. They could as well have blamed the inflation on the falling dollar to be discussed next, but they didn't. Third, with continued balance of payments deficits as discussed above plus now the increased domestic inflation, the value of the dollar continued to fall. Despite ongoing efforts throughout the 1970s to support the dollar, Saudi Arabia now began to sell its dollar reserves, and in addition threatened an oil price increase if the United States did not act to stop the fall. Most important, a massive flight from the dollar began in the now huge and essentially unrestricted private capital markets. The dollar faced going into free fall.

At the end of 1978, the Carter administration made a sharp policy change. Its central concern for its first two years with growth and a reduction in unemployment was replace by fighting inflation. Both fiscal and monetary polices were changed to become restrictive. Interest rates rose, but there were minimal impacts on the rise in labor costs, inflation, or the value of the dollar. Stronger measures were needed, but those would necessarily cause a significant recession, and Carter was not willing to do that.

In August 1979 Cater decided to send a message, in particular to international money markets, by appointing a known "hard money" man to head the Fed, Paul Volker. On October 6, the Fed announced a draconian tightening of the money supply. Interest rates jumped dramatically, and as planned the economy went into recession in 1980. But only part of the goals were achieved. Confidence in the dollar was restored, and its fall ended. But inflation was

not checked, and it actually rose to 13.5% in 1980. Real labor costs did begin to fall, but it was more from the continued accelerating inflation than from reductions in nominal compensation increases: nominal unit labor costs had gone up by 8.9% in 1978, and they went up by more than 10% in 1980.

More of the same tight money policy finally broke the inflation. After a brief upturn in the economy, interest rates went to new heights, and the economy went into a "second dip." The 1981-2 recession was the worst since the Great Depression, with output dropping by 2.2% in 1982 and unemployment reaching 9.7%. Inflation dropped from 13.5% in 1980 to 3.2% in 1983.

With inflation down to almost zero by July 1982, the Fed loosened its monetary policy. Inflation went up almost four points in a short time, but then stabilized, and has not meaningfully gone above that level for the next two decades.

With maintaining low inflation requiring little action in the 1980s and 1990s, the main action issue for the Fed, again in line with its concern to facilitate capital accumulation, was rapidly resolving developing financial crises, generally by playing the role of lender of last resort in one fashion or another. This was a lesson learned from its failure to do so in the Great Depression. It had already played this role in the 1966 credit crunch and the 1970 Penn Central and 1974 Franklin National Bank financial crises. The Fed continued its successful conduct of this role in the period of neoliberal consolidation in the 1982 Penn Square Bank and the Mexican default crises and especially in the potentially extremely disruptive 1987 stock market crash.

D- Neoliberal Labor and Welfare Policies

Two different incorrect ideas about the nature of the Keynesian Compromise labor policies must be dismissed before one can understand neoliberalism's labor policies. The more radical is a version of the "Fordism" thesis in which capital recognizes it faces a permanent "realization problem" (insufficient demand) and consciously moves to increase labor's compensation to (temporarily and partially) overcome this problem. The less radical version is that some sort of capital - labor truce was a central aspect of the Keynesian Compromise.

What was true was that right after WWII there was a broad fear that the drop in government demand with the sharp reduction in military spending would return the economy to the prewar depression. This view was dominant in the government planning agencies, had important support among academics, and was reflected in Truman's call for wage increases in an October 30, 1945 radio program. But the Great Strike Wave of 1945 - 6 showed that business as a whole neither subscribed to the idea that it was in its interest to raise wages, nor even that there was a capital - labor truce. Similarly, in 1947 Congress passed the strongest anti-labor act of the 20th century, the Taft-Hartley Act (interestingly, over Truman's veto), itself a witness that there was no truce, and a bill that assured a reduction of labor's share of production compared to what it would have been able to win without that act.

In Keynesian thought, production, sales and growth are key to profits. With demand for US products assured by the post WWII world situation, "stability" of production was considered key to profits. Output lost through strikes or even less acute labor conflicts meant profits lost. The late 1940s and 1950s saw the introduction of multi-year contracts and the fight by capital to lengthen them. When the 1957 slowdown came so strikes became temporarily less costly, capital used that to increase its confrontation with unions, over wages, mechanization, and intensification of work (often euphemistically called "conditions of work," "labor productivity" or "manpower utilization."), but they fought over these issues at some level throughout the whole

period. When exceptionally high profits were generated in the mid to late 1960s they were not automatically shared with labor. Rather, significantly increased strike action was needed for some of the profits to "trickle down." Throughout the whole period, capital fought tenaciously to prevent the unions from spreading geographically or increasing numerically. It slowly drove down the union percent of the workforce from its high of 35% in 1945 to 33% in 1955, 31% in 1960, 27% in 1970 and 23% in 1980. Neither claims of Fordism nor of a capital-labor truce correspond to the reality of the Keynesian Compromise labor relations. There was, rather, a capital - labor accord, that (generally) consisted basically of two aspects: there was no effort to outright break the unions in places where they were established (even after major defeats, such as the strike against GE in 1959), and labor was entitled to some part of productivity gains.

The fundamental change under neoliberal thought was the concept of the key to profits and the accumulation of capital. Instead of production, sales and growth, with its implied stability, neoliberal thought sees the key to enterprise profits as cutting costs. That could be by mechanizing or improved management, but it also includes especially lowering labor's compensation or intensifying labor. Beginning with the 1970s, capital, backed by government policies especially after the consolidation of neoliberalism, introduced a plethora of policies and practices aimed at reducing the growth of, or even absolutely reducing, workers' real wages and benefits.

There were at least six concrete attacks on labor that capital launched in the 1970s and 1980s that together determined the shape to the new capital-labor relations and the end of the old accord. i) Capital greatly increased its overseas production and purchase of foreign produced productive inputs. On the one hand this contributed to increased domestic unemployment and hence downward pressure on wages and benefits, but even more important was its value as a threat against demands for wage increases or unionization. ii) wage freezes and outright wage cuts. These were almost non existent before 1980, and then they appeared full-bodied like Athena from the head of Zeus with the 1981-2 recession. 44% of unionized workers bargaining for new contracts in 1982 took wage cuts or a wage freeze for at least the first year of the contract, while in 1980 there had been no such contracts. iii) Cost of Living Adjustment (COLA) clauses were rapidly eliminated from most contracts at the beginning of the neoliberal era. In 1985 alone, 40% of workers renewing contracts who had COLAs lost them: 50% of new contracts had COLAs in 1983, 40% in 1984 and 30% in 1985. iv) Two-tiered wage structures appeared, that gave much lower wages to new hires doing exactly the same work as established workers. In the best of cases such as the auto workers, these workers reached parity in a year and this was not too different from the lower wages during the probationary period that already existed in most contracts. In the worst cases, workers started at almost half wages and it took ten years or more to reach parity. While I will discuss the government below, Reagan gave a strong endorsement to this practice by instituting a two-tier wage system in the US Postal Service. v) Full time workers were replaced by "temps" (or "contingent workers"), generally with particularly large savings for capital on health, pension and other benefits. vi) "Union avoidance" took on new dimensions. It was already commented above that capital fought the spread of unions throughout the whole Keynesian Compromise period. The only change in that respect is capital's fight against new unions became more intense (as measured by money and effort spent fighting them, violations of labor law, etc). The new dimension was extensive union busting. Again, Reagan sanctioned this in his first year in office with his famous elimination of PATCO. While sometimes they simply broke a union, much more often they eliminated unions

by closing a plant and opening a new one non union (overseas or in the US), or occasionally through bankruptcy (with assets then sold to another company who operated them non union).

The government supported this attack on labor in at least five ways. i) By its tight money policies it slowed growth compared to what it had been under Keynesian Compromise capitalism, thereby weakening the ability of labor to fight back against capital's assault. ii) It allowed the minimum wage to drop in real value. iii) It reinterpreted labor law in ways much more favorable to capital. Reagan appointed anti labor figures to the National Labor Relations Board (NLRB), and in a series of rulings over the 1980s they sharply reduced labor's ability to organize new unions, bargain effectively with employers, or strike. iv) As a signal it directly engaged in two practices that private capital was developing, union busting and the two-tiered wage system, as noted above. v) It weakened the welfare safety net. It did a number of things in this regards. a) It reduced unemployment insurance benefits, beginning under Carter and deepening under Reagan. b) It reduced trade adjustment assistance, beginning under Reagan. c) The 309,000 Public Service Employment jobs that existed when Reagan took office were eliminated in his first year. d) It reduced Aid to Families with Dependent Children (AFDC). Under Carter, the real value of benefits dropped. Under Reagan, they continued to drop, and in addition changes in eligibility caused about half a million families to be removed from the program.

IV. Conclusion

Neoliberalism is a particular organization of capitalism. Its birth consisted of a reorganization of the previous organization of capitalism. Under the Keynesian Compromise, both private capital and its collective agent, the government, focused on ensuring the conditions existed for minimally interrupted production, sale and growth as the key to optimizing capital accumulation. That organization of capitalism, which had worked well for two decades in the specific conditions of rebuilding Europe and Japan, went into a crisis in the late 1960s and the 1970s. A falling rate of profit was a key manifestation of the crisis of accumulation. Neoliberalism shifted the policies of private capital and the government considered to be optimal for capital accumulation, given the concrete conditions that had come to exist by the 1970s and 1980s. Protecting the value of existing capital and, most important to this organization, sharply intensifying the drive to reduce labor's compensation, labor's share of output, are the key components to neoliberalism's strategy for optimal capital accumulation under current conditions.

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