The Revenge of the Capitalist Class: Crisis, the Legitimacy of Capitalism and the Restoration of Finance from the 1970s to Present

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Abstract
In the 1970s, US capitalism suffered a legitimacy crisis as the economy was mired in high inflation, unemployment, and slower growth. The rate of profit had been decreasing since the late 1960s and by the mid-1970s Wall Street was in poor shape. Capitalists politically mobilized in the 1970s to restore the rate of profit and to restore power to economic elites. In this article, I examine changes to the American economic system with special focus on the perspectives of capitalist elites. While the rate of profit in industry was not restored by the “neoliberal” era, the rate of profit in the financial sector (albeit sometimes volatile) has increased beyond what it was prior to neoliberalism. Thus, the capitalist political mobilizations of the 1970s inadvertently put Wall Street back into power.

Keywords
Bourgeoisie, capitalism, income inequality, industry, neoliberalism, Neo-Marxism, political economy, political sociology

Introduction
As a dominant ideological perspective, one can roughly say that “neoliberalism” and the economic arrangements it gave birth to are the product of a series of social and economic disruptions that emerged in the late 1960s and 1970s. Consider the 1971 memo written by corporate lawyer, corporate board member, and future Supreme Court Justice Lewis F. Powell Jr to the then director of the US Chamber of Commerce:

No thoughtful person can question that the American economic system is under broad attack … We are not dealing with sporadic or isolated attacks from a relatively few extremists or even from the minority
socialist cadre. Rather the assault on the enterprise system is broadly based and consistently pursued … The most disquieting voices joining the chorus of the criticism come from perfectly respectable elements of society: from the college campus, the pulpit, the media, the intellectual and literary journals, the arts and sciences, and from politicians … American business ‘plainly in trouble’; the response to the wide range of critics has been ineffective, and has included appeasement: the time has come — indeed, it is long overdue — for the wisdom, ingenuity, and resources of American business to be marshaled against those who would destroy it. (Powell, 1971: 1)

These sentiments are much different from the statements made over 35 years later in the “Plutonomy” memos leaked from Citigroup and posted on the internet in 2006:

The latest Survey of Consumer Finance data was released … It shows that the rich in the U.S. continue to be in great shape. We thought this was a good time to bang the drum on Plutonomy … Our thesis is that the rich are the dominant drivers of demand in many economies around the world (the U.S., U.K., Canada, and Australia). These economies have seen the rich take an increasing share of income and wealth over the last 20 years, to the extent that the rich now dominate income, wealth and spending in these countries … Asset booms, a rising profit share, and favorable treatment by market-friendly governments have allowed the rich to prosper and become a greater share of the economy in plutonomy countries … the CEOs who lead the charge in converting globalization and technology to increase the profit share of the economy at the expense of labor, all contribute to plutonomy (Kapur et al., 2006: 1).

The differences between the two memos are indicative of a tectonic shift in the underlying political sociology of US capitalism. In the Powell memo there is an explicit concern, not only with actual protest against capitalism, prevalent in the 1960s and early 1970s, but also with the broad public’s acceptance of the very legitimacy of the capitalist system itself. In contrast to the structuralist Marxist argument that in a capitalist state “the ruling class does not rule” (Block, 1977), it was clear that the ruling class sorely needed to rule again. And they did. In the Citigroup memo, there is no mention of legitimacy or protest against capitalism. The tone is congratulatory. The battle is over and capital has won. That the memo was authored by consultants within Citigroup (formed from Citibank and Traveler’s Group) suggests that a new segment of the capitalist class had triumphed in a class war—finance capital. A class known popularly and often referred to as such for its historical location around the financial district in lower Manhattan in New York City (Henwood, 1997). How did the Wall Street financial sector come to power? In this article, I argue that finance capital’s rise to power was rooted in how capitalist elites responded to capitalist legitimacy crises and falling profit rates during the 1960s and 1970s. In particular, deregulation of industry, tax cuts, and interest-rate policies were especially beneficial to the financial sector that put finance back into political and economic power.

**Neoliberalism: What is it?**

Observers of the US economy argue that neoliberal capitalism replaced the post-Second World War “Keynesian compromise” version of capitalism by the early 1980s (Bowles et al., 1990; Crouch, 2011; O’Connor, 2010). Others have characterized this shift as a move from the “Treaty of Detroit” to the “Washington Consensus” (Levy and Temin, 2007) or the “Wall Street Model” (Bluestone and Harrison, 2000). While the exact timing of the shift cannot be pinpointed to a specific year, some argue that the “Volcker Shock” of 1979 was the first explicit application of neoliberal “shock therapy” (e.g., Dumenil and Levy, 2011; Parenti, 1999; Perelman, 2007) on a national scale within the United States.¹ Others date the shift to the 1971 decline of the Bretton-Woods monetary regime that took the US off of the gold standard and made the dollar the world’s reserve currency (Gindin and Panitch, 2012; Hudson, 2003).
Dumenil and Levy (2004: 1–2) define neoliberalism as a set of institutional transformations designed to restore the revenue and power of the capitalist class—income streams and power that never fully recovered from the shocks of the Great Depression and the Second World War. At a very deep level, neoliberalism is more than just an economic ideology and set of state economic policies—it is a “rationality” that “…tends to structure and organize not only the action of the rulers, but also the conduct of the ruled” (Dardot and Laval, 2014: 5). In order to understand how we arrived at the neoliberal period (or how it was imposed) in the United States, we must understand the changing institutional arrangements of US capitalism from the end of the Second World War to the 1970s and the response of capitalist elites.

The Decline of the US Economy in the 1960s and 1970s

Various authors have described the decline of the US economy that began in the late 1960s. This economic decay was the end of what is sometimes called the “Golden Age” of economic growth that occurred from the end of the Second World War to the late 1960s (Asimakopoulos, 2009; Bluestone and Harrison, 1982; Brenner, 2002; Perelman, 2007). The Social Structure of Accumulation (SSA) approach has often been a useful approach for analyzing economic periods in US history.

As outlined by Bowles et al. (1990: 49–63) postwar US economic strength rested on four symbiotic institutional arrangements that promoted capital accumulation from the end of the Second World War until the 1970s. The first structure was Pax Americana. Having emerged from the Second World War as one of two superpowers with a relatively unscathed infrastructure and the power to establish the dollar as the dominant currency in the 1944 Bretton Woods agreement, the United States became a global capitalist super-power. The US government achieved military, economic, financial, and political dominance over the rest of the world and was able to use dollar diplomacy, the C.I.A., and/or other means to thwart off populist and socialist challengers to capitalism abroad (Bowles et al., 1990: 53). US corporations benefited from this arsenal of power that enabled them to extract cheap labor and raw materials from various “developing” countries.

Another arrangement that governed class struggle was known as the Capital-Labor Accord (Bowles et al., 1990: 53–57). In the final years of the Second World War, the most intense phase of striking and unionization played out among US workers. Strikes during these years were not sanctioned by American Federation of Labor (AFL) or the Congress of Industrial Organization (CIO) but were often “wildcat” strikes (Fantasia and Voss, 2004: 47). In exchange for labor peace, increasing control over the labor process and not challenging the capitalist order (Edwards, 1979), capitalists would allow workers real rising wages and relative job security (Bowles and Gintis, 1982). Organized labor achieved a high level of bargaining power (in part by agreeing not to strike) for unionized workers that likely spilled over to American workers as a whole.

Evidence of capital-labor accord effects may be found in statistics on earnings and income. For men wage and salary workers, real median incomes increased by 108% between 1947 and 1974 and by about 96% for women during this time period (United States Bureau of the Census [USBC], 2010a: Table P-53). The Census Bureau’s Gini index of family income inequality decreased by about 7.2% from 0.376 in 1947 to 0.349 in 1969 (USBC, 2010b: Table F-4) demonstrating that income became more equally distributed in the postwar era. Likewise, in 1947 the top one percent’s share of pre-tax income was 12% and it dropped by about three percentage points to 9% by 1970 (Piketty and Saez, 2003). The wealth share of the top one percent also dropped from about 30.2% to 27.6% over the same time period (Saez and Zucman, 2014). These statistical indicators tell us how affluence for the 99 percent grew after the Second World War.
The third institutional structure of the postwar SSA, the *Capital-Citizen Accord*, involved the use of Keynesian policies to stabilize the economy. Keynesian spending policies involved a mix of military spending, government subsidies to certain industries, and increasing expenditures on the welfare state (McDonough et al., 2010). In this arrangement, capitalists tolerated social programs such as Aid to Families with Dependent Children, Medicare, Medicaid, Social Security, Food Stamps, and other anti-poverty programs (Lippit, 2005). But the expansions of the welfare state in the 1960s were not necessarily out of benevolence.

Piven and Cloward’s hypothesis (1971), that mass insurgency compels politicians and government bureaucrats to expand the welfare state in order to forestall wider rebellion, has been supported in various studies. Thus, roughly after 1964 and following many Civil Rights protests, there was a surge in the welfare rolls in the United States. Quantitative research shows a correlation (Hicks and Swank, 1984) and qualitative research with high-ranking Health, Education, and Welfare (HEW) bureaucrats indicated that most of them expanded rolls in response to urban rebellions by African Americans (Button, 1978). But this mass uprising in the late 1960s and early 1970s, likely became one of the preconditions for the long-term organized capitalist counter-mobilization starting in the 1970s that orchestrated the imposition of neoliberal policies on American social, state, and economic institutions.

The fourth institutional arrangement involved the *moderation of inter-capitalist rivalry* (Bowles et al., 1990: 75–76). Many large industries at the end of the Second World War were oligopolies (e.g. big three automakers in the US) where a few large firms controlled most of the market (Galbraith, 1967). Many large American industrial concerns faced little competition and could effectively collude to raise prices, but state regulation largely prevented the excesses of this practice. This came to a halt in the 1970s. Europe and Japan had finally rebuilt from the ravages of the Second World War. A very rapid increase in imports beginning in the early 1970s lowered the economic power of the US and weakened a significant pillar of the SSA (Brenner, 2002). Not only were new economic competitors challenging US hegemony, but the internal arrangements of racial and economic oppression were being challenged.

**US Capitalism and Society in Crisis**

The breakdown of the post-war SSA occurred in the late 1960s and was both social and economic. From the perspective of elites, the late 1960s and early 1970s must have been a frightening time as:

Order seemed to be unraveling: massive anti-war protests on the Mall; a war effort bogged down and hemorrhaging in the mud of Southeast Asia; economic stagnation and declining profit rates; and, in the cities, skyrocketing crime coupled with some of the most violent riots since the Civil War. (Parenti, 1999: 3)

Figure 1 plots the annual number of protest events, riots, and political strikes in the United States between 1948 and 1973. “Protests” refer to non-violent gatherings of people with the aim of protesting a regime, government, or one of its leaders, ideologies, policies, and previous or intended actions. Non-violent protests track the Civil Rights movement quite well and hit 211 in 1965 (the year that saw passage of the Voting Rights Act that outlawed practices designed to dis-enfranchise African Americans and other people of color and the assassination of Malcolm X).

In the subsequent two years (1966 and 1967) non-violent protests decline and there are peaks in the “riot” measure. “Riots” are distinguished from “protests” (the first measure) when violence is present (Taylor and Jodice, 1984). Violence implies the destruction of property or force used against people such as the use of riot control equipment by the police and other authorities and the
use of violence by rioters. This wave of rioting in American cities by African Americans provoked condemnation from many political leaders. So much so that Lyndon B. Johnson put together the Kerner Commission to study this wave of rioting. One of the main findings was that, “White racism is essentially responsible for the explosive mixture which has been accumulating in our cities since the end of World War II” (Report of the National Advisory Commission on Civil Disorders, Kerner et al., 1968: 2). That is, pent-up conflict over years of racial and class oppression and the inability of modern Civil Rights legislation to reduce poverty in urban areas exploded in a firestorm of rioting with the causes conveniently acknowledged by the state. A third measure in Figure 1 is the number of political strikes. “Political strikes” are defined as work stoppages by industrial employees or a stoppage of academic life by students to protest leaders’ actions and policies (Taylor and Jodice, 1984). As protests and riots died down, there was an increase in political strikes with a peak in the year 1970 (non-violent protests peak at 244 in 1972). These statistics tell us that protest, in various forms, was highly prevalent in the late 1960s and early 1970s. As one form of protest peaked and died down, another form of protest became more frequent in the subsequent year. Nace (2003: 162) noted: “. . . much of what was going on seemed aggravating if not downright frightening to big business.”

Scholars from several countries, including the United States, authored the Trilateral Commission’s “Crisis of Democracy” report (Crozier et al., 1975). Samuel Huntington, the head of Harvard’s Department of Government, was concerned that the growth of government in the 1960s corresponded to a decline in its authority. This was in contrast to the previous decade—the 1950s—when President Eisenhower was “able to govern the country with the cooperation of a relatively small number of Wall Street lawyers and bankers” (Crozier et al., 1975: xx). As Chomsky (1978: 32) concluded, this was a “rare acknowledgement of the realities of political power in the United States.” The problem was that, “. . . higher levels of self-consciousness on the part of blacks, Indians, Chicanos, white ethnic groups, students, and women—all of whom became mobilized and
organized in new ways to achieve what they considered to be their appropriate share of the action and the rewards” (Crozier et al., 1975: 61). From the vantage of capitalist elites, this demonstrated “an excess of democracy” and that “the pendulum had swung too far in one direction” (Crozier et al. 1975: 64). The “blowback” from years of racial, class, ethnic, and gender oppression found people organized into movements that effectively challenged the power structure. Martin Luther King Jr., shortly before his assassination in 1968, threatened to unite poor African-Americans and European-Americans and other poor people into a broad poor people’s movement. With a booming economy in the 1960s and a surging rate of profit, this can be somewhat tolerated or “absorbed” by the system. But US economic power and hegemony was starting to show cracks by the late 1960s through the 1970s.

Not only was big business frightened by the social unrest and widespread rebellion against “order” going on in the United States (and abroad), but also changes in the economic climate were a source of fear by the late 1960s. Economic growth during most of the 1960s was very strong.

The US economy emerged from the Second World War intact. No bombs were dropped in US cities and no factories were destroyed. US productive capacity was extremely high because major powers such as Japan and Germany were reduced to rubble. Real GDP growth was about 4% between 1948 and 1973. But what likely troubled the capitalist class most, was the fall in the rate of profit after 1966. Thus, not only were events of civil disorder and other uprisings all around, but the rate of profit began a decline during this time (see Brenner, 2002, for a deep overview). In the first quarter of 1966 the pre-tax rate of profit (this data is for the non-financial sector) peaked at 20.4% and fell to about 15% by the third quarter of 1970 (Bakir and Campbell, 2010). Figure 2 is a plot of the non-financial sector rate of profit based on data provided to the author from Erdogan Bakir. The plotted series cover 1948 through 1975.

We see that the 1960s was a time of mostly increasing profit rates. The 7% after-tax rate of profit at the end of the Second World War fluctuated between 5% and 6.5% to a trough somewhat below
5% (in 1958). By 1963, the after-tax rate of profit was above 7% and continued to grow until 1965–1966 peaking at 9.2% in the first quarter of 1966. The fall to 5.5% in 1970 and the low point of 4.4% in 1974 signaled a great crisis for capitalism as the rate of profit was halved from its post-war peak.

Why did the rate of profit fall after 1966? One hypothesis is that it was the beginning of the decline of the postwar SSA (mentioned above). Bowles et al. (1983) developed a statistical model to explain movements in the rate of profit that suggested the terms of trade, the cost of job loss, crude material prices, and the corporate-citizen accord explained annual movements in the after-tax rate of profit. What the model suggests is that greater economic competition from Germany and Japan, oil price shocks, and the increases in AFDC, unemployment compensation, and Food Stamps, that afforded workers “ . . . much greater protection from insistent corporate discipline” (Bowles et al., 1983: 91) contributed to the declining rate of profit after 1966. Dumenil and Levy (2004) argue that declining annual growth in the productivity of capital (the amount of output relative to the amount of machines, computers, buildings, etc.) sparked a decline in the rate of profit around 1966. This was due to the diminishing returns to technological innovation. In other words, each additional technological improvement is successively less capable of generating more output. At the same time, Germany, Japan, and other European countries (having recently rebuilt from a war-torn era) incorporated the latest technologies compared to the obsolete technologies used by US companies. Regardless of explanation, the rate of profit in the non-financial sector fell after 1966 (a point to which I return below). For owners of capital, this was a crisis.

**Capitalist Class Consciousness**

Capitalists, historically, have been quite myopic and unprepared for collective action. Different segments of the capitalist class have often been divided along industrial and regional lines (Akard, 1992; Smith, 2000). This is not surprising because capitalists, in some circumstances, have to compete with each other for market share. Political scientists who interviewed managers reported that capitalism was too complex for capitalists to overcome sectoral and regional divisions (Silk and Vogel, 1976; see also Jenkins and Eckert, 2000). However, there has long been a shared capitalist class mentality held by economic elites fostered in elite prep schools, colleges and universities, foundations, and policy-planning groups, as extensively documented by Domhoff (2014; see also Khan, 2012). One way to reconcile this two perspectives is to recognize that in capitalist society classes have both *immediate* and *fundamental* interests (Wright, 1978). While capitalists may be divided over immediate (e.g., industrial and regional) interests, they are united over fundamental interests of profit extraction and capital accumulation—especially in the face of crisis. At this point in the early 1970s, any potential divisions and lack of capacity for collective action were about to change.

In an August 1975 address to the International Platform Association, the president of the U.S. Chamber of Commerce, Richard Lesher, posed the question, “Can Capitalism Survive?” In his address Lesher (1975) stated:

In my position, I am exposed to literally thousands of businessmen from all parts of the nation, from all industrial sectors and from all sizes of companies. I must report to you that there is more fear, *genuine* [italics original] fear and concern about the survival of our system today, than any time in my memory… I said earlier, ‘There are many people in this country who are against capitalism.’ The word itself has negative connotations in many circles—as does the word, ‘profit.’… Do we want a higher standard of living for everyone? Or, a more *equal* standard of living? I submit that we cannot have both and we had better face the need to make a clear choice between the two. (1975: 732)
Lesher represented the U.S. Chamber of Commerce. His remarks suggest that capitalists were indeed fearful of the demise of “capitalism” in the 1970s. In a similar vein, Lemuel Boulware (mentor to Ronald Reagan at General Electric) opined that “I would emphasize that such of the attacks on us as are unwarranted are not just hindrances to our supplying good values and rewarding dividends, but are part of a current general attack on all private property” (Boulware, 1970: 159, emphasis in original). The President of an aluminum and chemical company warned, “It’s about time we admitted that the free enterprise system can’t survive in this country… unless – unless those of us who should be defending the system, who should be working to improve it, fight to save it” (Maier, 1977: 181).

Outside of falling rates of profit, their other greatest fear was the rise of government regulatory power (and likely the protest wave mentioned above). The subtitle of Lesher’s speech was “The Unbelievable Growth of Government Power and Spending.” Similarly, in a 1972 speech delivered before the 77th Congress of American Industry and the National Association of Manufacturers, representative Philip Crane (R-Illinois) noted that, “In recent days attacks upon free enterprise have been mounting, government agencies have been increasing their authority, and too many American businessmen have failed to defend themselves and the system of competitive capitalism …” (Crane, 1972: 194). Faced with a dual social and economic crisis, the call from some members of the capitalist class was to mobilize.

The capitalist class mobilized politically in the 1970s (Akard, 1992; Nace, 2003; Perelman, 2007; Phillips-Fein, 2009). The causal factors driving the mobilization of business were economic crisis and, politically, the institutionalization of regulation (Useem, 1983: 291). Thus, the crisis of profitability and the liberal legislation of the 1960s that set the ground for the regulation of business in the 1970s subsequently created conditions for capitalist class mobilization. With declining profit rates, eliminating government regulations and minimizing taxation are the most likely targets for capitalists who seek a marginal means to restore the rate of profit. And it was Ralph Nader, from the vantage of capital, who was the most dangerous man in America. The Powell memo quoted at the beginning of this article identified him as “… a legend in his own time and an idol of millions of Americans” (Powell, 1971: 3). Further, Powell wrote:

There should be no hesitation to attack the Naders, the Marcuses and others who openly seek destruction of the system. There should not be the slightest hesitation to press vigorously in all political arenas for support of the enterprise system. Nor should there be reluctance to penalize politically those who oppose it. (1971: 11)\(^4\)

How would the mobilization of capital be brought about? Interestingly enough, Powell’s memo had been addressed to the head of the U.S. Chamber of Commerce. He argued that, while “Other national organizations (especially those of various industrial and commercial groups) should join in the effort, [but] no other organizations appear to be as well situated as the Chamber” (1971: 5). The political and public relations risks of a single corporation getting overtly involved in politics were duly noted by Powell. Importantly, Powell argued that this movement could not be short term or piecemeal, instead:

Strength lies in organization, in careful long-range planning and implementation, in consistency of action over an indefinite period of years, in the scale of financing available only through joint effort, and in the political power available only through united action and national organizations. (1971: 5)

In Figure 3, membership in the U.S. Chamber of Commerce between 1952 and 1979 is plotted. While the Chamber saw slow and steady growth in membership since 1952, there are massive rises
in membership in the 1970s. Membership increased by about 3000 between 1971 and 1972 but shows an absolute surge after 1976. Membership increased from 44,000 in 1976 to about 60,000 in 1977 and to 72,000 by 1979. By the mid- and later 1970s, we see a massive mobilization of the capitalist class. And this mobilization was not confined to this particular, although highly important, lobbying organization.

The laws regulating corporate political donations changed in the mid-1970s. In 1974, amendments to the Federal Election Campaign Act allowed business and corporations to donate vast sums to federal candidates (Smith, 2000). The proliferation of corporate political action committees (PACs) is, in part, the unintended by-product of laws aimed at allowing ordinary people to have political influence and minimize elite dominance (Akard, 1992: 602). Before changes to this law, labor PACs dominated Washington. In Figure 4, the number of corporate PACs is plotted from 1975 to 1980. In 1975, there was an estimated 114 corporate PACs and by 1980 there were 1130 corporate PACs. Federal Election Commission data indicate that by 1980 there were 274 labor PACs for a ratio of about four corporate PACs for every one labor PAC. This indicates that political dominance of capital over labor occurred pretty swiftly in the late 1970s.

The data in Figures 3 and 4 indicate that the capitalist class mobilized in the mid- and late 1970s. The qualitative evidence cited above indicates capitalists mobilized because they feared attacks on the “free enterprise system” during this time. The mobilization of business in the 1970s can be divided into two segments: defensive and offensive (Akard, 1992: 603). From 1974 to 1978, capitalist mobilization was defensive and the objective was to block legislation sponsored by labor and liberal groups. Between 1978 and 1981, capitalist class mobilization was primarily offensive—the aim being to develop and push the enactment of neoliberal economic policies. The turning point was likely in 1978 when capitalists successfully defeated amendments to the National Labor Relations Act (NLRA) which would have outlawed some anti-union activities of large firms and
possibly reversed the trend of diminishing US union membership (Akard, 1992; Smith, 2000). At the beginning of the legislative year, organized labor expected to be celebrating a legislative victory, but after the defeat of the bill, it was big business that was clinking champagne glasses (Smith, 2000). By the fall of 1978, the capitalist class moved to a relatively more offensive political strategy (Phillips-Fein, 2009).

**The Capitalist Class Reaffirms its Affinity for Capitalism**

The 1970s represented an era in which capitalists were mobilizing with specific enemies in mind. State actors addressing capitalists identified government bureaucracies such as the Federal Trade Commission (FTC) and the Occupational Safety and Health Administration (OSHA) as particularly threatening to “free enterprise” (Peschek, 1989). This was true of Philip M. Crane who, in making a 1972 speech before the National Association of Manufacturers, argued that OSHA, “...has opened the door to harassment of business in its daily operation, a harassment which promises to grow greater in the future” (Crane, 1972: 194). Quoting from the Powell memo, Crane noted that “...it is essential...for business to take the lead in setting forth the powerful affirmative case for free enterprise” (1972: 195). On the following day, Ronald Reagan, then Governor of California, warned of the dangers to “free enterprise” in the United States. He told the audience:

For the second time in this century the idea of free enterprise is under attack. You are being blamed on a daily basis for many things you have not done, and you are given very little credit for things you have done and done very well. Under the guise of consumerism or environmental protection or just that old bromide ‘big business and big labor require big government,’ an assortment of activists for one cause or another are attempting to take from you the prerogatives of management without accepting any of the responsibilities that drive you on occasion to a Milltown. Little Sir Ralph has become a folk hero taking whacks at you
with his wooden sword, and all of a sudden in too many minds, you are the dragon that must be slain. Don’t get me wrong—Little Ralph isn’t really the enemy; he is just a symptom (Reagan, 1973: 197).

The references to “Ralph” mean Ralph Nader. Some of the “problems” identified by Reagan can be linked to specific federal bureaucracies (e.g., Environmental Protection Agency, Federal Trade Commission, which included consumer protection). Oddly enough, Governor Reagan never discusses defense spending and the taxation needed to support it as a “threat to free enterprise.”

Reagan proceeds to discuss taxes. After discussing claims by the left of corporations that paid no income taxes, Reagan counters that they do not “…add that there were 624 people in the United States last year who earned one million dollars or more and that 621 of them paid an average income tax of $935,000?” (Reagan, 1973: 197). Reagan is here referring to the top marginal tax rate (which was about 70% in 1972). This is exaggeration on his part because the top marginal tax rate is different from the effective average tax rate—what the rich actually pay and is much lower (Pechman, 1985). And some people listening to Reagan might think that the high-income people he is referring to had incomes close to the lower bound of $1m missing that the category he refers to is $1m or more.

Three Republican presidents before Reagan were more interested in balancing budgets than in cutting taxes. Eisenhower, Nixon, and Ford actively resisted tax cuts and imposed tax increases in some cases (Bartlett, 2007). State actors (Governor, Reagan and a House member, Crane) are addressing members of the capitalist class (the National Association of Manufacturers) about the excesses of state power and how it threatens “free enterprise” (capitalism). These ideas were not limited to those cited above, but they give us insight into what issues concerned capitalists in the 1970s.

In her study of US neoliberalism, Prasad (2006) identifies several key neoliberal initiatives: taxation, deregulation, and welfare state reduction that were acted upon in the beginning of the Reagan presidency. She argues that “Reagan’s policies intensified trends that had begun before his term, but it is important not to underestimate the context in which Reagan came to office” (2006: 44). Prasad goes on to mention the economic crisis of the late 1970s and early 1980s as being a unique circumstance in which the Reagan administration pursued its neoliberal reforms in the United States. Essentially, as Michael Perelman (2007: 14) put it, in the wake of the economic and social crisis of the 1960s, “…capitalists believed that the only way for business to recover the advantages it had enjoyed before the Great Depression was to take aggressive measures against the rest of society”. In essence, the capitalist class needed to avenge its institutional loss of power and wealth in the new global economy that started to take shape in the 1970s. The inflation of the 1970s was gravely important to wealth holders and financiers (Krippner, 2011), and the response to this crisis shaped which segment of capital would rise to power after 1980: Finance.

**Inflation in the 1970s as a Symptom of Class Conflict**

The 1970s were a period of stalemate in the conflict between capital and labor. In popular consciousness the 1970s may be remembered as a time of bad fashion, disco, and punk music, it was also the high-tide of workplace conflict. Conservatives and Federal Reserve Bankers refer to the rapid inflation of the late 1960s and 1970s as “The Great Inflation” (e.g. Meltzer, 2005). What is inflation? Inflation is when the average price of goods and services in the economy are increasing (McConnell and Brue, 2002: 146). Thus, it might take $1.00 to purchase the same goods in 1981 that in 1980 had cost only $0.91 (using an estimate from the Bureau of Labor Statistics’ Consumer Price Index).

Who benefits from inflation? In the 1970s, workers, home-owners, and Social Security recipients with cost-of-living adjustments generally benefited from wage increases, the ability to pay off
mortgages, and benefits indexed for the rising costs of goods and services—in essence, wage earners, debtors, and retirees. Who does not benefit? And herein lies the crux of a series of economic policies that would operate to serve the interests of the new Wall Street Ruling Class. Creditors, banks, and financial institutions were financially hurt by the high inflation of the 1970s. The principal on a $1000 loan in 1969 would be worth $505 by 1979. This was good for the borrower and bad for the loan originator—such as government debt bondholders (Canterbery, 2000). The Consumer Price index (a general index of the prices of consumer goods and services) had an average annual percent change of 3.8% between 1965 and 1972. Between 1973 and 1981, the average annual percent increase was about 9.1%.

What caused the “Great Inflation”? Monetarists such as Milton Friedman argued that it was simply too much growth in the money supply. He argued that inflation was caused by the Federal Reserve Bank allowing the money supply to grow too rapidly relative to the economy:

. . . inflation is always and everywhere a monetary phenomenon that arises from a more rapid expansion in the quantity of money that in total output—though I hasten to add that the exact rate of inflation is not precisely or mechanically linked to the exact rate of monetary growth. (Friedman, 1978: 22)

Federal Reserve Bank insiders and their ideological fellow-travelers have debated the causes of the “Great Inflation.” Meltzer (2005), a Fed insider, argues that “outside political forces” influenced the Fed in the 1960s and 1970s because its monetary policy was trying to accommodate the political objectives of Presidents and Congress to keep unemployment low.

Romer (2005) argues instead that the Federal Reserve Bank was simply corrupted by bad ideas after the late 1950s when the Federal Reserve Bank briefly went into radical monetarism by “orchestrating serious contraction” (2005: 178) but then allowed the Keynesian fiscal policies of the Kennedy and Johnson (and possibly Nixon) administrations to influence the central bank. One of the policy decisions Romer suggested was wrong-headed was to lower the “natural rate” of unemployment. In Marxian terms, Romer’s argument suggests that Federal Reserve Bank policy did not use money supply restriction efficiently enough to effectively manage the reserve army of labor and bring down “wage-push” inflation. Marxian economists have provided a more complicated perspective on the causes of the “stagflation” (high inflation and high unemployment, see e.g., Bowles et al., 1990: Ch. 6).

In the late 1960s, as the unemployment rate fell, the bargaining power of labor was increasing. Disciplinary supervision in the workplace and the corporate grip began failing as the “reserve army of labor” was depleted and the cost of job loss (Schor and Bowles, 1987) was diminished by increasing welfare benefits, food stamps, housing assistance, and unemployment insurance. Rising labor costs were, according to capital, squeezing corporate profits. While in the past, corporations could pass off wage increases in the form of higher prices, by the 1970s this strategy was no longer as viable because of increasing foreign import competition (especially from Japan and Germany). The fall in the rate of profit further contributed to an investment shortfall that likely contributed to slower productivity growth (Irvin, 2008). What may have panicked capital and finance capital was that inflation was a progressive tax that disadvantaged them the most.

A long-standing body of research in economics suggests that inflation has a moderate progressive impact on the income distribution, while unemployment has a strong regressive impact. For instance, Alan Blinder (whom Clinton hoped to replace Greenspan as Federal Reserve Chair) co-authored two well-known studies that suggested that inflation had a slight progressive impact on the share of income going to the bottom 40—60% of families in the US (Blinder and Esaki, 1978; Blank and Blinder, 1986; Jantti, 1994; Volscho, 2004). Unemployment, however, Jantti (1994) finds, is the “cruelest tax” on low income households. A more recent study by economist Arjun
Jayadev (2008) demonstrates that in terms of public opinion, the poor are more supportive of efforts to combat unemployment than inflation while the opposite was true of wealthier individuals. The shift to “monetary correction” in 1979 by the Federal Reserve Bank to fight inflation was, in part, a major means of waging a new class war and designed to discipline middle-class and blue collar workers across the United States (Volscho, 2012). This class war strategy did so by having the Fed prioritize inflation above and beyond unemployment. The Federal Reserve Bank’s increased power after the late 1970s “. . . enshrined a deflationary bias in state economic policy” (O’Connor, 2010: 707).

**The Rate of Profit and Financial Sector Extraction**

Did the new institutional arrangements of US capitalism restore the rate of profit? That is, under the neoliberal SSA, was the rate of profit restored to its high levels of the 1960s? The answer is that the rate of profit in the non-financial sector has not yet recovered to its heyday of the 1960s. A look at Figure 5 reveals this much. The non-financial sector rate of profit peaked between 1964 and 1966 (Bakir and Campbell, 2013). Explanations for the profit crisis have ranged from a multitude of causes rooted in the higher bargaining power of labor (and diminished productivity owing to the inability of capital to dominate labor in the 1970s) noted by Bowles et al. (1983; see also Glyn, 2006; Piven and Cloward, 1985) to Dumenil and Levy’s (2004) argument that diminished returns to productivity resulted in dwindling profitability. The editors of the *Monthly Review* have argued that stagnation is the result of the inherent monopolistic organization of capital where production quickly surpasses demand (Foster and Magdoff, 2009). Probably one of the most detailed studies of the falling rate of profit in the US is Robert Brenner’s (2002) *The Boom and the Bubble*. Brenner’s analysis demonstrates that a significant amount of class-based reorganization occurs...
when capitalists search for ways to restore the rate of profit. One of the central pieces of the puzzle (also noted by Bowles et al., 1990) was the rise of Japan, Germany, and to a lesser extent other western European nations’ manufacturing sectors in the mid-1960s. With the latest technology after having to significantly rebuild infrastructure after the Second World War, capital in nations like Germany and Japan could effectively efficiently out-produce US manufacturing.

In the face of competition, US capitalists, unable to markup costs (because of the lower priced imports) were stuck with the sunk costs of plants and equipment and a relatively strong labor unions so they could not (immediately) squeeze wages. Thus, “As a consequence of the unexpected interruption of lower-priced producers on the world market, U.S. manufacturers thus turned out to have over-invested, and were prevented from raising prices in line with labour and capital costs” (Brenner, 2002: 17). But falling profit rates in the manufacturing sector later spread to the non-manufacturing sector and thus rates of profit in the aggregate, declined in the US. The ultimate result was that capital went on a wholesale assault on labor costs—everything from wages to benefits.

What has been most remarkable about the restoration of capital is the financialization of the capitalist class (Brenner, 2002; Davis, 2009; Foster and Holleman, 2010; Krippner, 2011). The ability of finance capital to extract or siphon away the profits of non-financial corporations has accelerated under the neoliberal era (Bakir and Campbell, 2013). Financial institutions have been able to extract increasing amounts of capital out of non-financial sector profits thereby slowing down the rate of capital accumulation in the non-financial sector. Accordingly, the rate of profit in the financial sector has increased and averaged out at a higher rate than during the “Golden Age” era of American capitalism (from the end of the Second World War to the late 1970s). Figure 5 is a time-series plot of the rate of profit in the financial sector over the period of 1951 and 2010 (the underlying data provided by Erdogan Bakir). We can see that the rate of profit in the postwar era hovered around 10% in the 1950s and 1960s but started decreasing in the later 1960s and saw a massive slump in the mid-1970s. Thus, for Wall Street the 1970s was an especially trying time of crisis. In the neoliberal era, the financial sector rate of profit starts recovering with some swings in the early 1980s. By the mid-1990s, the rate of profit in the financial sector surpasses the height of the previous peak in the postwar “Golden Age” era peaking at just under 14% in 1997 and just over 14% by 2006. The lock up of the financial system is evident in 2008 as the rate of profit in the financial sector plummets to barely above zero. The bailouts from the Treasury Department and Federal Reserve Bank are likely responsible for the rapid recovery of the financial sector rate of profit in 2009 and 2010.

Going back again to the non-financial sector and its link to the financial sector rate of profit there been a discrepancy between the rate of profit and the rate of capital accumulation in the non-financial sector (Bakir and Campbell, 2010). Much of this has occurred via net interest payments and increasing dividend payouts flowing out from the non-financial sector and into the financial sector. In terms of “agency” this is not surprising as the “shareholder value movement” took flight in the 1970s (Fligstein, 1990) and the rentiers exacted revenge by shifting how executives are compensated (stock options) resulting in short-sighted managerial behavior concerned with propping up and inflating stock prices. The diminished regulatory oversight of financial firms and the shift in corporate activities and governance toward financial structures is closely associated with quite possibly the largest wave of un-prosecuted white collar crime on record in the form of accounting and securities fraud (Black, 2005). The success of neoliberalism can be judged by who it benefited. It benefited the richest income receivers as their shares of income grew strongly in the 1980s (Piketty, 2014; Piketty and Saez, 2003) and very strongly in concordance with the stock market and housing market bubble in the 1990s and 2000s (Volscho and Kelly, 2012). Generally speaking, the share of income accruing to individuals, families, and households below the 99th
percentile decreased, stagnated, or remained the same. At varying degrees of intensity, these groups were the losers of the class war launched in the late 1970s. Marx argued that “Interest-Bearing Capital and Commercial Capital” was older than industrial capital but that industry would ultimately dominate finance (Hudson, 2012). However, Marx did not miss the parasitic nature of finance in noting that, “Usury centralizes money wealth . . . attaches itself to it as a parasite and makes it miserable. It sucks its blood . . . impoverishes this mode of production, paralyzes the productive forces instead of developing them” (Marx, 1909: 699).

And much like the non-financial sector, households accumulated debt to sustain their consumption patterns in the face of stagnating wages (Kotz, 2008). Wall Street acted as a “giant vampire squid” (Taibbi, 2010) in its relation to every other sector in American society.

Conclusion

The transformation of US capitalism in the 1970s to neoliberalism involved political and economic elites’ response to a series of crises that emerged in the 1960s and 1970s. Capitalists, in response to a falling rate of profit in the non-financial and financial sectors as well as challenges to the power and privileges of the rich by various social movements, developed a collective capitalist class consciousness and mobilized in the 1970s to reclaim state power. This mobilization and the subsequent Neoliberal Social Structure of Accumulation they implemented are the revenge of the capitalist class. Essentially, this involves a rebellion of the rich against the New Deal of the 1930s, War on Poverty programs from the 1960s, and the power of organized labor. The result of these attacks has been to increase inequality by enhancing the power of finance over the political economic system. Thus, the possibly unintended victor of the class war that began in the 1970s has been the financial sector.

Acknowledgements

The author would like to thank the reviewers, Jay Arena, Angie Beeman, Leigh Binford, Noam Chomsky, Kate Crehan, Francesca Deguili, Rafael de la Dehesa, and David Fasenfest for helping improve this article.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Notes

1. The City of New York may have been the targeted by neoliberal shock therapy in 1975 when Citibank and other investment bankers conspired to push the city into bankruptcy to discipline municipal labor unions (Harvey, 2005: 45; Henwood, 1997; Tabb, 1982).
2. There are various arguments about precursors to neoliberalism in the post-Second World War era. Chile’s 1973 coup d’état was an experiment in imposing radical “free market”/neoliberal policies (Harvey, 2005; Winn, 2004). The City of New York may have been the targeted by neoliberal shock therapy in 1975 when Chase Manhattan and other investment bankers conspired to push the city into bankruptcy to discipline municipal labor unions and city residents (Harvey, 2005: 45; Henwood, 1997; Tabb, 1982). Another precursor might be the rise of maquiladoras in Mexico during the 1960s.
3. These figures were tabulated by the author from The World Handbook of Political and Social Indicators IV: 1948–1982 (Taylor and Jodice, 1984).
4. What is quite interesting here, is that Nader was critical of governmental regulation of business (Prasad, 2006). He argued that regulation was biased in favor of capital and that deregulation would help American workers and consumers. By the later 1970s, deregulation of agencies that impinged on capital
accumulation interests (e.g., Environmental Protection Agency) were being deregulated in a pro-capitalist fashion (Prasad, 2006), which was accelerated in the first two years of Reagan’s presidency.

5. The data comes from the U.S. Federal Election Commission. The data series only go back to 1974 and the figures plotted here are yearly averages.

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