Cédric Durand, 1979 in Reverse — Sidecar

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1979 in Reverse

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In 1979, when Jimmy Carter appointed Paul Volcker chair of the Federal Reserve, the mandate was clear. Tackle inflation, whatever the cost. And so he did. In late 1980, interest rates reached a record high of 20%, and inflation fell from a peak of 11.6% to 3.7% in 1983. For the capitalist class, this came with an economic and political bonanza. The rate hikes triggered a severe recession, precipitating a wave of restructuring and lay-offs that helped to crush the trade unions, demoralize the left and discipline the global south. The result was a 'revenge of the rentiers', and a well-documented surge in inequalities.

Volcker's '1979 coup', as Gérard Duménil and Dominique Lévy called it in *Capital Resurgent* (2004), came in a period when declining systemic dynamism in the advanced-capitalist world – brought on by intensifying competition, with successful Japanese and German catch-ups – was met by rising labour militancy and mass social movements, producing a general crisis of governability. Meanwhile radical forces in the former colonial countries called for a New International Economic Order, based on economic sovereignty and the regulation of multinationals. The 1979 coup was arguably the most consequential factor in turning the tide against these insurgent forces. The hegemony of the dollar was strengthened. Countries in the global south were brought to their knees by the rising cost of debt servicing and forced to adopt structural-adjustment programmes, drawn up by the IMF and World Bank in coordination with the US Treasury. In the global north, pro-US governments liberalized capital flows, subordinating industrial relations and welfare systems to the growing power of finance.

Stabilize prices, crush labour, discipline the south. This was the basic logic of the 1979 coup. For four decades, financial returns were systematically prioritized over labour standards, employment, ecological conditions and development prospects. Now, in 2021, there are signs that this era is finally coming to an end. Yet to what extent, and by what means? The logical unfolding of the swing movement that occurred over forty years ago may help to illuminate the present moment. Are the Biden Plans merely a new inflexion of neoliberal norms, or do they amount to a clear break with the post-79 regime?

The most exaggerated expression of 'left optimism' to date comes from the *Wall Street Journal*. America's leading conservative newspaper tells us that 'Joe Biden may be the most anti-business President since FDR'. His Administration is implementing 'a Bernie Sanders–Elizabeth Warren agenda that would vastly expand government control over business and the economy.' The WSJ is not particularly perturbed by Biden's spending spree; but it is incensed about the planned rise in corporate and wealth taxes, as well as the attempt to bolster union organizing with the Pro Act, ‘the most far-reaching labour legislation since the 1930s.’

The Pro Act could indeed be highly consequential, both the economically and politically, if the growing associational power of labour opened space for expanded organization, improved social conditions and rejuvenated working-class politics. Its effect will be undermined, however, as long as there is a large reserve army of unemployed and underemployed workers, putting downward pressure on wages and working conditions. Employment in the US remains severely depressed, and Biden famously dropped the $15 minimum wage from the Covid relief package. Nevertheless, reducing unemployment and underemployment appears to be an aim.

Biden’s $1.9 trillion stimulus combined with Trump’s packages has injected a total of $5 trillion – almost 25% of GDP – into the US economy, the largest-ever fiscal expansion in peacetime. More than enough to reflate the economy from its Covid-19 trough, this economic voluntarism is an unambiguous departure from the fiscal moderation of the Obama Administration and the dogmatic austerity of the EU. Its ideological significance should not be underestimated.

First, as Serge Halimi noted in the April number of *Le Monde diplomatique*, one of the most promising features of the American Rescue Plan was its universality. By the end of April, over 160 million Americans had received a Treasury check of $1,400. This was a break with the punitive ideology of neoliberal social subsidies, typically distributed under strict and humiliating conditions. It paves the way for broader measures, with an eye to the 2022 mid-term elections.

Second, the scale of the Administration’s public spending is deliberately designed to generate a high-pressure economy, which necessarily involves an element of inflationary risk. It is on this point that 2021 can be considered a 1979 coup in reverse. As Adam Tooze stressed – hailing the dawn of a new economic era – for decades ‘the bias of technocratic judgement’ has been in favour of price stability and against labour. This is changing – explicitly so. Since 2019, at least, Treasury Secretary Janet Yellen has been referring to arguments developed by Arthur Okun at Brookings in the 1970s, about the social advantages of a high-pressure economy.

Okun, briefly the chair of LBJ’s Council of Economic Advisers, argued in 1973 that accepting slack – the under-utilization of resources, especially labour – as an insurance policy against inflation implied ‘the sacrifice of upward mobility’, while ‘a higher-pressure labour market’ would launch a process of ladder-climbing, in which ‘men formerly in poor jobs move into better ones, making way for women and young people in the less well-paid pursuits’. Wage differentials would narrow, as ‘the same forces that make for more jobs also make for better jobs and more output per worker.’

This seems to be Biden’s strategy: increasing employment, reducing inequality and fostering productivity growth, via high-pressure economic policy. As his speechwriters put it, ‘trickle-down economics has never worked’; the objective should be ‘to grow the economy from the bottom up and middle out'. Let's take a moment to enjoy these words – a plain U-turn from the kind of policies that Democrats like Biden have been implementing for decades. For the left, this represents the result of years of ideological and political mobilization with the Sanders campaigns, and AOC's rise as the tip of an iceberg of activist endeavour.

Yet it also responds to a situation in which financial markets, supposedly the central nervous system of the economy, have spent the past decade on life-support systems and have lost contact with underlying earnings. In other words, we need to ask: if the 1979 coup showed that the rise of finance entailed the fall of labour, could the 2021 pro-labour turn succeed in dethroning finance?

Brian Deese, head of Biden's National Economic Council, formerly at investment giant BlackRock, doesn't represent a break from the usual model of Wall Street-Washington technocrats. Yet in an interview with the NYT last month, he explained the rationale for the Administration's statist turn. The challenges were (1) climate change, (2) inequality and (3) China. None of these could be tackled adequately by the market, so the state had to step in. It's worth looking at all three.

Droughts, fires and hurricanes have made climate change a concrete reality in the US, and failure to mitigate it is no longer an option. According to Deese, all economic policy must be climate policy, and to be politically sustainable it must be employment policy too. The Administration has duly deployed its ecological policies under the banner of a 'Jobs Plan', to defuse any clash between environmentalism and employment.

In contrast to the stimulus, the main problem with the American Jobs Plan – and the companion American Families Plan, for childcare and education – is that their scale is drastically undersized. Their combined $4.05 trillion makes for big numbers. But this is to be spread out over a decade, so that all-in-all it accounts for just 1.7% of GDP per year – risibly small for the claim to 'rebuild a new economy' and a fraction of the $16.3 trillion (or 7.6% of GDP per year) proposed by Sanders's Green New Deal.

On infrastructure, the American Society of Civil Engineers estimates that $2.59 trillion of additional investment is required simply to maintain the existing infrastructure for 2020-29 in a state of good repair. Biden's plan will help to maintain the existing railway sector, but will not expand it to substitute for cars or planes. Biden's so-called 'green transition' aims to 'clean' existing processes, not to transform life and consumption patterns. An ill-founded optimism about technological advance complements the imperative to preserve capitalist social relations.

Interestingly, the plan in its current form does not rely on private funding. Financial investors are begging for long-term assets, particularly public-private partnership infrastructure projects. They are worried, explains Larry Fink, Deese's former CEO at BlackRock, because 'there are huge pools of private capital standing by', with a lack of safe projects to invest in. The Biden team is resisting these sirens for now, although it is still promoting that kind of privatization scheme in the global south. One obvious reason is because, as observed by the Financial Times, federal government debt always comes out cheaper than the commercial returns necessary to private-sector infrastructure operators, ‘a cost that ultimately lands on the users of essential services.’ But it was precisely this kind of obviousness that neoliberal thinking stubbornly tried to obfuscate.

Instead, the Biden Administration plans a modest rise in corporate tax, from 21% to 28% – shy of the 35% rate before Trump – and calls for a minimum global rate of 15%. The top rate of income tax will inch up from 37% to 39.6%, and ordinary income-tax rates could be applied to capital gains and dividends for Americans earning over $1m a year. In some states, the combined state and federal capital-gains tax could be above 50% – if the legislation makes it through Congress. Ideologically, its very articulation is a rebuttal of the neo-Schumpeterian claim that incentives for capital owners are the main drivers of innovation and employment. It is all the more compelling in a period when overabundant capital is extremely cheap, private investment is depressed and there is a widely recognized need for public and social infrastructure.

The third element is China’s rise. It would be hard to overstate the strength of American national-imperial thinking here, or the challenges it raises for the internationalist left. Yet an unintended consequence is to further sideline financial markets as an apparatus of macro-economic coordination. Deese puts it bluntly: ‘There’s not a market-based solution to address some of the big weaknesses that we’re seeing open up in our economy, when we’re dealing with competitors like China that are not operating on market-based terms’. This is not a minor concession.

As Isabella Weber documents for the 1980s in *How China Escaped Shock Therapy* (2021), the balancing act of the CCP road to capitalism was grounded in a debate about the strategy of market reforms. On several occasions, the option of full-blown liberalization was considered, but ultimately set aside. Instead, the PRC engaged in capitalist globalization while keeping what Lenin called the ‘commanding heights of the economy’ under state control. Once Washington recognized that China was not only catching up with, but in some areas surpassing the US, American officials began to consider what Deese described as ‘targeted efforts to try to build domestic industrial strength’ – the measures once mocked as ‘industrial policy’.

With China, as with inequality and climate policy, the Biden Administration is ostentatiously relying on the re-legitimation of state intervention. As the WSJ lamented, the White House seemed to be shifting away from bipartisan assumptions that ‘the public sector is inherently less efficient than the private, and bureaucrats should generally defer to markets’. Combined with tax rises on capital gains, the core interest of the financial class, this can only suggest a reversal of fortune for the hegemony of finance. If the size of the intervention is limited, its logic is distinct from any kind of neoliberal policy.

Since 2008, the financial sector has been dependent upon state support to shore up its returns, which have lost their inherent dynamism. For more than a decade now, financial assets have been persistently inflated by pro-corporate fiscal and monetary policies. Under this regime of escalating plunder, finance has become disconnected from market-based processes. It is sustained by hidden subsidies and central-bank interventions to prop up the structure of liabilities generated by financial leverage and speculation. Financial stability has become a matter of political decision-making, not of market dynamics.

As this situation persists, there is a logical reversal. While states used to be terrified that market liquidity would dry up – a typical feature of crises from the 1990s on – the configuration is now reversed: the financial community is on a permanent public lifeline to ensure liquidity, smooth market clearing and provision of assets.

This socialization of fictitious capital as the new normal is beginning to alter the balance of power between state and markets, and within the capitalist class at the expense of financial rentiers. 'Bidenomics' is an early symptom of this reconfiguration. Moves to strengthen the relative position of labour, to overturn rentier-class tax privileges and to reject the neoliberal wisdom that market coordination is always preferable to state intervention: these signals amount to more than just a rhetorical shift. They point to a structural break in the regulation of capitalism, the shockwaves of which will reverberate in the global political economy for years to come.

Is this shift sufficient to tackle the century's social and ecological crises? Not nearly. Does it alter essential class relations? On the contrary: it strives to re-legitimize the social order. Is it unambiguous? No: while private finance has been kept out of new domestic infrastructure projects, the US is still driving privatization and deregulation in the global south and intensifying its new Cold War on China. Will it propel a new phase of economic expansion? I doubt it, due to the sheer scale of global overaccumulation and the fade-out of the industrialization bonanza. Even so, 2021 will be remembered as the moment when global capitalism was reorganized beyond neoliberalism, a tectonic shift that will irrevocably alter the terrain of political struggle.

That we have arrived at this moment should not be a surprise. There have been many signs that the neoliberal tool-kit was proving less and less effective for the day-to-day management of capital accumulation. The Eurozone crisis, global waves of 'populist' protest, the new assertiveness of digital monopolies, were indications of growing systemic instability. On top of that the pandemic accelerated the pressure for change. At this stage, one of the few things that can be said with confidence is that the possibility of tasting once again the flavour of popular victories is a just little greater than it was five months ago. That's not much. But for people like me, born in the 1970s or after, it is a first.

Read on: Cédric Durand, 'In the Crisis Cockpit', NLR 116/117.