The End of Neoliberalism?

Shimshon Bichler and Jonathan Nitzan
Jerusalem and Montreal, June 2003

This article was commissioned by the French newspaper *Le Monde.* The newspaper was one of several sponsors of an International Conference on Global Regulation, held at the University of Sussex on May 29-31, 2003, where we presented a plenary paper. As part of its sponsorship, *Le Monde* agreed to publish two articles reflecting the spirit of the conference. The first of these articles, written by four of the conference organizers, was published prior to the conference. After the conference, the organizers asked the two of us to submit a second, short article highlighting the gist of our presentation. This article is enclosed below. The paper was sent by the organizers to *Le Monde's* Editor in Chief, Serge Marti. Many phone calls followed. In each call, Mr. Marti promised to publish the paper promptly. He never did.

Why the Middle East?

Prior to the attack on Iraq, the conventional wisdom was that the U.S. had embarked on a series of "neoliberal wars." These wars, went the argument, were part of a grand strategy to defend and extend the ideology and practice of the "free market" under the auspices of the U.S. The most serious threat to this strategy, we were told, came from the Middle East. The reason was threefold. Many countries in the world had oil. Many had weapons of mass destruction (WMD). And many had Islamic fundamentalism. But it was only in the Middle East that Islamic fundamentalism was armed with both oil and weapons of mass destruction. And if the fundamentalists decided to use either of these weapons, the consequences for capitalism would be devastating. It seemed obvious, then, that any strategy to secure neoliberalism first had to secure the Middle East.

Recent revelations have made the WMD side of this logic a bit less convincing, but the oil side of the argument remains. As Professor Anthony Cordesman puts it, given that U.S. prosperity depends on global prosperity and that global prosperity depends on free access to Middle East oil, it follows that the region, which accounts for 65% of the world's proven reserves and 30% of its daily output, must be treated as "a truly vital American strategic interest." So even without WMD, direct U.S. control of the Middle East seems essential for neoliberalism.

***Anti*-neoliberal wars?**

Unfortunately, this argument too may turn out to be wrong. In the end, the new wars are likely to make oil *more expensive*, and their broader result may well be to *undermine* neoliberalism.

Consider first the doctrine of (neo)liberal capitalism. This doctrine rests on two pillars. One pillar is the accumulation of capital in private hands. The other pillar is "small government" and "sound finance." A strong state is perfectly acceptable to neoliberalism, as are violence and war. In fact, often they are necessary in order to protect private accumulation. But the bellicosity can remain "liberal" only insofar as it doesn't lead to large budget deficits and inflation. And it is in this latter sense that the new wars are *anti*-neoliberal.

In the U.S., rising military spending to fight "global terrorism" and tax cuts to "revive the economy" will soon create the country's largest budget deficit ever. In parallel, Alan Greenspan's massive monetary easing and John Snow's abandonment of the "strong dollar" constitute an open invitation for inflation. These clearly are *not* neoliberal policies, and with the U.S. taking the lead in this direction other countries may be forced to follow.

Now, on the face of it, the shift away from neoliberalism seems to imply that "capitalists" are losing relative to "state officials." To accept this interpretation, however, would be to confuse means with ends. Capitalists do not seek neoliberalism; they seek accumulation. Neoliberalism is merely a means to that end, and, recently, it has become ineffectual, if not counterproductive.

The secret engine

In order to understand this policy U-turn and how it relates to the new wars, we need to backtrack a bit and consider the golden age of neoliberalism, roughly from Reagan to Clinton. The first fact to note here is that accumulation during that period had very little to do with economic growth. From 1980 to 1999, U.S. GDP rose by less than 3% annually – its lowest rate since WWII. By contrast, the rate of accumulation during that period, measured by the "real" total return on the *S&P 500* (capital gains plus dividends deflated by the U.S. Consumer Price Index), was the highest on record – over 13% annually. The extra 10% – the difference between capital accumulation and economic growth – came from mergers and acquisitions, the secret engine of neoliberalism.

The mechanism was simple enough. Neoliberal deregulation, the opening up of "emerging markets" and falling interest rates, combined with the need to keep productive capacity from becoming "excessive," pushed companies away from "green field" investment and toward corporate amalgamation. The result was the longest and most massive merger boom in history. And as firms went on buying each other out, they bid up stock prices, generating returns four times higher than the aggregate growth of the economy.

These happy days began to fizzle out in the late 1990s. The "Asian miracle" had gone bust, "emerging markets" had submerged, the "new economy" had dissipated and the "high-tech" mania had turned out to be a fraud. And as the tide receded, it left behind a massive overhang of credit obligations. Total debt in the U.S. is now equivalent to three times the country's GDP – the highest on record and twice what it was on the eve of the Great Depression. At the same time, "pricing power" is the weakest since the Great Depression. The problem is so serious that now the key fear is global *deflation*. If prices start falling – as they have for some time in Japan and recently in Germany – firms and consumers will be unable to service their debt, and when that happens the door will be open to *debt deflation*, the "China Syndrome" of capitalism.

Enter inflation

In this context, the most effective remedy is *inflation*. Dominant capital groups are desperate to have it. Central bankers, finance ministers and defense chiefs are priming the pump in order to fuel it. The only thing missing is a "spark" – and it is here that the Middle East comes into the picture.

Over the past thirty years, global inflation was led not by economic growth, but by the ups and downs of oil prices. During the neoliberal 1980s and 1990s, despite accelerating growth and the endless "mischief" of OPEC, the price of oil kept falling, and so did inflation. These trends were convenient for neoliberal accumulation. They helped hype emerging markets, they cheapened credit and they assisted in fueling the merger boom. Clearly, there was no need to "intervene" in the Middle East.

But by the end of Clinton's presidency, with the merger boom having turned bust bust, further declines in the price of oil started to look menacing. There was now an urgent need for inflation – and that called for higher, not lower oil prices. The only problem was that the world was "awash with oil," as *The Economist* put it, and how do you make prices go up when supply is so abundant? Judging by its dismal performance during the previous twenty years, OPEC clearly wasn't up for the job anymore. Evidently, there was a need for a whole new political arrangement – an arrangement that would create enough "instability" and "crisis" to make oil look "scarce" and therefore worthy of a higher price. This goal could be achieved only through *direct* intervention, and it was in this context that the NeoCons, headed by George Bush Jr. and backed by the oil and armament companies, stormed the White House.

It won't be neoliberal

The oil and armament companies stand to benefit enormously from the NeoCons' assault on neoliberalism. During the "energy crisis" of the early 1980s, when oil cost $80 a barrel in today's prices, these companies pocketed nearly 1/5th of all global profits (!) and they are clearly eager to repeat the experience. Similarly with the military contractors, who are always the first to cash in their chips when military budgets go up.

Of course, the whole bonanza hangs on a thread. In order to retain its power, the "Weapondollar-Petrodollar Coalition" between the NeoCons and the oil and armament companies has to deliver the goods: *their new wars have to kick-start inflation*. If they fail to do so – because the wars aren't sufficiently "intense," because the hostilities don't create enough "scarcity" in the oil market, or because inflation does not "respond" to higher oil prices – we still may end up with deflation. But whatever the outcome, it is unlikely to be neoliberal.