U.S. Politics & the Global Economy

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Introduction: A Critical-Historical Perspective on Globalization

Economic power has long intersected with political and ideological dimensions of power. The ability of owners of economic assets to shift production from the sovereign territory of one nation-state to another is a crucial and ever-increasing manifestation of the linkages between private economic power and political capability. The fact that more global companies are engaging in greater volumes of trade and foreign production than at any other time in history has placed enormous constraints and pressures on policymakers to compete for sources of economic wealth.[1]

The nature of the relationship between the globalization of the world's economic resources and the public policies adopted by nation-states has been the subject of considerable discussion and debate in recent academic literature. Most discussions have tended to view the march toward globalization as a product of the inherently expansionist tendencies of capitalist economic actors to search for increased markets and lower production costs in the face of increasingly sophisticated technological competition. In this view, globalization is an economic process driven by the logic of capitalist production relations, which necessitates that governments amend their domestic policies so as not to get left behind in the race for access to global capital investments. This perspective tends to see the globalization of the world economy as unidirectional: driven by the competitive pressures of the private market that then influence the policies of nation-states around the world.[2]

Our analysis focuses attention on the role of both structural economic factors *and* political coalitions in shaping the pace, direction, and scope of globalization by establishing particular global structures that provide ideological and institutional support for increased trade and investment. Because the United States has been the dominant economic, political, and ideological actor in post–World War II global politics, some of the most important and influential political coalitions behind the long-term processes of globalization have been based in the United States and have long exported an ideological and political vision of the limits and possibilities of globalization to other parts of the world.[3] For us, then, globalization is not simply a process driven by the economic tendencies of the capitalist marketplace to expand, innovate, and invest on a global scale. Instead, globalization is a historical process led by constellations of political actors, many of which originated in the overlapping worlds of business and politics in the United States.[4] The most aggressive and systematic efforts of U.S.-based political coalitions to promote increased investment and trade in Europe originated with the so-called Bretton Woods coalition of 1944, where we begin our analysis. This coalition was established by U.S. political and business elites as a response to the destructive tariff wars of the 1930s, which in many accounts led to the carnage and devastation of World War II. The task for Bretton Woods planners was to fashion a political and economic system that could alleviate the tendencies toward tariff wars and facilitate global negotiation toward free trade.

We argue, in short, that the Bretton Woods coalition was a set of global rules and regulations promoted by a political coalition of business internationalists and political elites in the United States as a way of overcoming the "beggar-thy-neighbor" policies of the 1930s. But the Bretton Woods system, as some have called it, was deliberately restrictive in the limits it placed on financial capital mobility, reflecting a series of compromises among business groups, political elites, and trade unions in the United States and Western Europe.[5] The essence of the Bretton Woods system was that trade barriers would be gradually reduced by negotiation between the major capitalist powers but that governments would be able to defend independent monetary and fiscal policies systematically by limiting financial capital mobility, and business nationalists would be able to negotiate exceptions to the tariff reduction tendencies of the system.

By the mid-1970s, however, the Bretton Woods system had been liberalized considerably. Business internationalists and political elites in the United States took the lead in aggressively lobbying their domestic government and foreign governments for removal of restrictive financial capital controls. Other business groups, beset with foreign competition that threatened erosion of market share or even bankruptcy, advocated that new protectionist barriers be erected by their home governments to protect their domestic U.S. industries.[6] In addition, a whole range of industries, both nationalist and internationalist, expanded their political lobbying networks to advance a series of concessions from the U.S. government, including tax breaks and subsidies, to allow them to compete more aggressively with foreign firms.[7]

The efforts of some U.S. business internationalists to weaken the Bretton Woods system of restrictions on capital mobility reflect both economic *and* political trends, although many analysts treat the "collapse of Bretton Woods" as solely an economic phenomenon.[8] Our analysis recognizes that U.S. business internationalists have sought to lower their production costs and, in some cases, to overcome declining rates of profit by diversifying production overseas to acquire cheaper sources of capital and lower productive inputs. The rise of Japanese and German global economic competition has been a driving force behind the efforts of U.S.-based global companies to diversify their production lines further and expand their export markets around the world. And, most important, increased international competition among multinational banking corporations has given these businesses a vested interest in liberalizing global capital markets.[9]

However, these multinational companies, many with headquarters in the United States, have not abandoned their reliance on the U.S. nation-state, as some analysts have concluded. Instead, U.S. business internationalists have relied on U.S. political elites to enhance their global competitiveness through deregulation of capital markets, starting with the United States, extending to various European nation-states, and culminating in an aggressive ideological and political effort in the 1980s and 1990s to promote opened markets and freer capital investment in the less developed world. At the same time, the efforts to promote capital mobility in the United States have been coupled with an unprecedented lobbying campaign to roll back the country's social welfare programs and to enlist the support of the U.S. government in weakening the political and economic position of its labor unions.[10]

Thus the erosion of the so-called Bretton Woods system is both a product of intercapitalist competition, political and ideological conflict, and the articulation of class interests that have been strongly expressed in the shifting political and economic coalitions in the United States since 1950. Seen in this light, globalization is not simply a product of market trends but part of a larger political and ideological process that has involved the establishment of extensive lobbying networks created by global business elites, often led by groups based in the United States, to achieve political support from the United States and other governments in a period of increasing international economic competition.

Our analysis examines the U.S.-based political coalitions that have helped fashion global institutions from the post–World War II period to the present. These coalitions have included business organizations and blocs of political elites from the Democratic and Republican parties that have advanced particular international and domestic policy agendas based on their immediate political, economic, and ideological interests. We argue that these interests are reflected in political debates in the U.S. nation-state at the level of congressional and presidential elections and have resulted in a decline of liberalism in the United States. The decline is evidenced by the rise of conservative political coalitions in both the Democratic and Republican Parties that have advocated substantial "reform" and curtailment of the U.S. welfare state.

The "right turn" of U.S. politics and ideological discourse is expressed in an assault on a supposedly outdated liberalism. A Democratic president has opportunistically declared that "the era of big government is over," and a more committedly conservative congressional majority seems somewhat serious about actually dismantling it. Our perspective is that the great bulk of the welfare state as well as the sizable U.S. defense budget are key components of corporate hegemony in the United States. This is not because the welfare state co-opts or buys off the poor, but for the simple and direct reason that its beneficiaries are primarily middle- to upper-income groups.

Certain components of the welfare state, such as Medicaid, Aid to Families with Dependent Children (AFDC), and affirmative action, are being downsized or even eliminated because they benefit or are perceived to benefit primarily marginal social groups such as the poor or African Americans. The identity politics of the present, expressed in the reactive surge in 1994 of "angry white males" in the middle- to upper-income strata to the Republican Party, are intertwined with the fiscal and monetary crises of U.S. liberalism.[11] Our perspective is that in the wake of the collapse of the Bretton Woods system and the parallel decline in the capacity of the state to expand the welfare state in a framework of low taxes, a variety of neoliberal and neoconservative projects have vied for position. These projects began with the crisis-borne election of Richard Nixon in 1968 and continue up to the recent dueling of Bill Clinton, Bob Dole, Newt Gingrich, Pat Buchanan, and Ross Perot. What typifies all these political tendencies is their common attack on the legacy and legitimacy of "big government" as a signifier of an old and mythically overgenerous liberalism.

The level of analysis throughout this book is the intersection of international and domestic politics in the United States. The remainder of this chapter subdivides the international and domestic levels of our analysis in order to illustrate the linkages between increased globalization and domestic U.S. politics. U.S.-based political coalitions took the lead in supporting the expansionary Bretton Woods system, which fixed the dollar to gold at $35 an ounce and restricted capital movements internationally. The implications for U.S. domestic politics included the establishment of an international monetary framework that allowed for an expansionary fiscal and monetary U.S. state. The Bretton Woods environment was conducive to the Great Society programs of the 1960s, expansionary U.S. fiscal and monetary policies, and dramatic increases in military spending.

The collapse of the Bretton Woods system has been defined by the liberalization of financial markets, floating exchange rates whose values are determined by international currency speculators and financial institutions, and increased economic competition for overseas capital and market shares characterizing the period after 1973. We argue that the collapse was not solely predetermined by economic trends but was advocated by well-organized political coalitions that lobbied both internationally and domestically for a rollback of the Bretton Woods system.

With this in mind, we focus our analysis on the shifting political coalitions advocating a breakup of the Bretton Woods system and their impact on U.S. domestic politics. U.S.-based multinationals that once championed Bretton Woods found the system too restrictive by the 1960s and 1970s, when international competition increased, labor unions achieved notable gains, and the development of vast regulatory bureaucracies in the United States and Western Europe threatened to lower profit margins further.[12] These defectors from the Bretton Woods coalition have been an important political force internationally and in the realm of U.S. domestic politics. They have developed a political, economic, and ideological agenda responsible for creating the liberalized financial market structure of the post–Bretton Woods period, which has undermined expansionary fiscal and monetary policies in the United States and elsewhere, generating consistent attacks on the social welfare state in the process.

The remainder of this chapter identifies the international and domestic levels of analysis used throughout this book. We address four primary themes: (1) the role of U.S. elites in promoting Bretton Woods institutions internationally and New Deal policies domestically from the end of World War II through the 1960s, as well as business conflict over Bretton Woods and New Deal programs in the 1940s–1960s; (2) the domestic and international factors leading to the collapse of the Bretton Woods and New Deal coalitions in the mid-1970s and the implications for the social welfare state; (3) the rise of conservative coalitions within both the Democratic and Republican Parties that are increasingly funded by business coalitions advocating a right turn in U.S. social and fiscal policy; (4) the implications of such a right turn for U.S. domestic politics and how such shifts in political economy have affected elections at both the congressional and presidential levels.

The Bretton Woods and New Deal Coalitions: Resolving Interbusiness Conflict

Business conflict is the key variable in our analysis of the crisis of liberalism in the United States. In our view, U.S. politics is typified by alignment politics expressed in electoral and legislative coalitions.[13] What distinguishes our perspective is the understanding that no alignment can gain significant influence without the leadership of some key segment of business. For example, as we argue elsewhere,[14] the 1993 congressional vote on the North American Free Trade Agreement (NAFTA) would not have been close were it not for the opposition of many business nationalists to the trade agreement.

Politics in the United States is best described as being dominated by the structural and ideological hegemony of business. Yet business "as a class" is internally divided along sectoral and industrial lines; key business groups and leaders diverge in their views and interests over many major issues. Further, as a constitutionally based electoral system, albeit one dominated by private campaign financiers and a systematically entrenched two-party framework, elite economic groups must gain the consent of a broader social base of voters and other supporters. These formations, which we refer to as "coalitions" or "blocs," have been subordinated, at least to this point in U.S. political history, to the interests of business, or more exactly to some particular segment of the dominant class.

The first and second chapters of this book focus on the rise of a liberal faction of business firms in the United States that promoted the New Deal in the 1930s and continued to advocate the preservation and growth of a social welfare state during the post–World War II period. These groups consisted of a bloc of capital-intensive investors concentrated in sectors of investment and commercial banking, oil, electrical machinery, agribusiness, and chemicals, as well as numerous capital-intensive manufacturing firms with considerable international investments in Western Europe.[15] For these firms, the New Deal promised regulatory and political stability that could help deter class conflict. Characterized by high productivity and profitability, considerable international investments, and a capital-intensive structure, these firms could afford the increased labor costs associated with New Deal social and regulatory policies.

Business opponents of the New Deal were concentrated in the relatively labor-intensive industries of textiles, clothing, and steel and iron production. These firms felt most threatened by the increased regulatory and social spending of the New Deal, which raised labor costs and undercut the slim profit margins of small businesses and labor-intensive manufacturing firms. This bloc of firms has been most committed to conservative political coalitions throughout the post–World War II period, especially the right wing of the Republican Party and the elevation of Barry Goldwater to the presidential nomination of 1964.[16] However, much of this right-wing business coalition was undercut by the Depression of the 1930s, which bankrupted and weakened small businesses opposed to the New Deal.[17]

In addition, the militarization of the U.S. economy during World War II provided a strong stimulus for the domestic economy, rescuing numerous manufacturing industries from bankruptcy and politically strengthening the faction of liberal, capital-intensive industries that had supported the New Deal.[18] This capital-intensive, pro–New Deal bloc of industries also joined with state elites in formulating the ideological and strategic rationale for rebuilding Western Europe in the aftermath of World War II. In Western Europe, as in the United States, this capital-intensive political coalition, often labeled business internationalists, was able to invest behind high tariff walls and accept capital controls and to tolerate the emergence of strong regulatory states and social welfare spending in exchange for political stability, which became the essence of the Bretton Woods system. The coalition also aggressively lobbied for international institutions such as the World Bank and the International Monetary Fund, which would provide resources for the creation of infrastructure and lending necessary to promote foreign investment and trade.

This group of capital-intensive foreign investors also lobbied the U.S. government for bilateral aid programs to Western Europe, including the Marshall Plan, the most extensive aid program in U.S. history, designed to facilitate the conditions for increased trade and investment in the region.[19] Debates over the Marshall Plan in the United States pitted business internationalists against their nationalist counterparts who had opposed the New Deal, had little or no stake in foreign investment, and were committed to a U.S. state that reduced its levels of social spending and foreign aid.

The ability of business internationalists to win support for extensive bilateral aid and Bretton Woods institutions hinged on couching them in terms of the imperative of U.S. national security and the start of the Cold War. The development of a vast military and security apparatus in the United States helped provide lucrative subsidies to a range of manufacturing industries that might have otherwise opposed the promotion of Bretton Woods and bilateral foreign aid programs. As we argue in Chapter 3, Cold War military spending became the U.S. version of Western European social welfare programs, providing extensive state payments to military and military-related manufacturing industries while integrating Western Europe into a military and economic partnership that would benefit business internationalists with European investments *and* business nationalists tied to the domestic U.S. market but dependent on military spending.

We also note in Chapter 3 that the role of business internationalists was important in providing political and ideological support for the strategic and economic programs that institutionalized the U.S.–Western European alliance. U.S.-based business firms with an interest in consolidating, enlarging, or beginning their foreign direct investments in Western Europe supported the European Economic Community (EEC). Business internationalists, especially those firms at the high end of the product life cycle, welcomed the opportunity to invest and trade within an expanded European market. After having passed through the stages of U.S. domestic production and trade, such multinationals had the size, resources and capital to dramatically expand their foreign direct investments.

THE COLLAPSE OF BRETTON WOODS: REVIVAL OF INTERBUSINESS CONFLICT

We argue in Chapter 4 that the mid-1960s and early 1970s saw the beginnings of what some have termed a crisis in U.S. hegemony.[20] The emergence of revived and internationally competitive German and Japanese economies meant shrinking market shares for U.S.-based multinational corporations. Relying on aggressive export strategies and strong state support for internationally competitive manufacturing and high-technology firms, the German and Japanese nation-states challenged U.S. businesses in Europe and the United States, a phenomenon that contributed to the decline in the real value of the dollar, as foreign and domestic investors were busy exchanging dollars for gold in the U.S. market.

Meanwhile the costs of U.S. hegemony were reflected in the spiraling commitments of the national security state. State spending on the Vietnam War escalated dramatically during the years 1965–1968, supported by an array of manufacturing industries buoyed by lucrative war contracts. Other business elites, however, started to question the war, largely because of its negative impact on the U.S. dollar.[21] By the late 1960s and early 1970s, business internationalists in investment and commercial banking, along with capital-intensive manufacturing industries with little or no ties to military spending, expressed opposition to the war and called for U.S. elites to de-escalate.

The increasingly competitive international climate of the late 1960s and early 1970s polarized business groups previously committed to Bretton Woods internationally and Great Society spending at home. More competitive U.S.-based oil, computer, banking, and capital-intensive manufacturing firms championed de-escalation in Vietnam, détente with the Soviet Union, and the opening of new foreign markets in Eastern Europe (and possibly the Soviet Union) as a strategy for reviving U.S. competitiveness.[22] These business internationalists further advocated expanding investment opportunities by deregulating foreign capital markets—a strategy aggressively pursued by U.S.-based multinational banks with considerable success—while maintaining U.S. efforts to reduce trade barriers with Western Europe.

Other business groups, especially business nationalists with investments concentrated in the United States and regionalists with investments concentrated in North America, and less competitive business internationalists, opposed efforts to liberalize trade and foreign capital markets.

Joined by military contractors dependent on high levels of Cold War spending, these interests opposed efforts to promote détente and wanted to abandon the Bretton Woods commitment to lower trade barriers. The most hawkish elements of this group provided a strong base for the rise of "new right" conservatism in the Republican Party with the founding of the Committee on the Present Danger, a high-powered lobbying organization that warned of the dangers of détente and opposed efforts to promote arms control.[23]

The economic contradictions of high military spending, vast foreign commitments, and the emergence of highly competitive foreign economies led to a growing trade imbalance and increasing budget deficits. The Nixon administration, pressured by U.S. export industries that were hurt by the overvalued dollar (still pegged at $35 an ounce by the Bretton Woods agreements) and domestic business interests facing increased competition for the U.S. market, signaled the formal end of Bretton Woods by unilaterally suspending the dollar's convertibility to gold and imposing a 10 percent surcharge on all foreign imports. Although business internationalists and foreign governments were able to persuade the Nixon administration to abandon the surcharge, through the famous Smithsonian Agreements of 1973–1974, the so-called Nixon shocks paved the way for floating exchange rates that ended the Bretton Woods system.

The remainder of the decade saw a number of developments that have been labeled by some observers as indicative of a right turn in U.S. foreign policy. First, business internationalists failed in their efforts to promote détente, and many joined their conservative counterparts in calling for higher rates of military spending in 1979 after the success of several revolutionary movements in the less developed world (especially the Middle East) threatened the investments of U.S.-based multinationals. Second, business internationalists, previously willing to tolerate the increased social and regulatory spending of the New Deal and Great Society programs, began lobbying aggressively to scale back those programs dramatically. Seen as a costly burden in the competitive international environment of the 1970s, social programs, regulatory reform, and labor legislation became a battleground for class conflict during the latter part of the decade.[24]

After Bretton Woods: Business Conflict and the Global Context of Conservative Realignment

The fifth and sixth chapters of this book trace the decline of liberalism in the context and aftermath of the collapse of the Bretton Woods system. Chapter 5 focuses on the 1970s and emphasizes the impact of the stagflationary economy of the period. The economic stresses of the period led to broad business support for neoconservative policies that would reverse the decline in real rates of profit by decade's end. This paved the way for the Reagan "revolution" that is addressed in Chapter 6. Chapter 7 examines the contradictions of the new conservative bloc and charts the potential for various coalitions of business and political elites through the 1990s and beyond.

Political and economic time are never entirely synchronic. In the history of liberalism in the United States, the political crisis has preceded the economic by five years. The year 1968 was one of global crisis in liberal hegemony. In the United States liberal reform was challenged by new social movements of African Americans, women, and others who saw the Great Society reforms as inadequate, neglectful of attention to the root causes of racism and poverty, or even designed to forestall necessary social change. Further, the human costs of the interventionist foreign policy of the Johnson administration in Southeast Asia evoked increasing and broad public opposition to the continuation of the war.

By the end of the 1960s increased global competition was placing greater pressure on the dollar and on U.S.-based multinational firms. The welfare-warfare spending and lowered taxes of the Johnson years also increased inflationary tendencies in the U.S. economy. The financial sector then looked to the Nixon administration to reign in those pressures with more conservative fiscal and monetary policies. Also, labor-intensive industries in the manufacturing sector, which had to a great extent remained aligned with the Republicans even through 1964, looked for favorable policies from the Nixon administration.

Nonetheless, the Nixon administration anticipated remaining within the broad Keynesian framework of the previous era. While relying on the support of core Republicans, Nixon sought to gain the approval of those business interests in the international and financial markets that generally had been aligned with the Democrats since the New Deal.[25] Any successful conservative at the time would have certainly had to adapt as well to the strong popular support for key elements of the expanded welfare state.

In mass politics, the early 1970s remain an underappreciated era of labor militancy in which low levels of unemployment combined with new social currents that challenged traditional labor-management relationships.[26] At the institutional level, organized labor remained generally moderate (even abandoning the Democratic Party in 1972!) and populist politicians such as George Wallace sought the support of more socially conservative members of the lower middle to working class. Yet even with unimaginative leadership, wage earnings continued to improve and the Nixon administration supported a degree of enhanced regulatory protection of worker safety. The onset of inflation led to a new convergence of interests between financial and labor-intensive industrial capital as corporate interests emphasized the "wage push" element of inflation and the use of wage/price controls was openly portrayed as an effort to limit the power of organized labor.[27]

After 1974 the Bretton Woods system was a thing of the past, and the oil shock had made the new global dependency of the U.S. economy obvious. In a context of higher unemployment and the emergence of the "rust belt," the position of organized labor was in precipitous decline. Domestic sources of resistance to market liberalization were severely weakened, just as new business coalitions were emerging. On the surface, Watergate appeared to have put conservative forces in retreat and heightened public critical awareness of the influence of moneyed interests in politics. Nonetheless, post-Watergate reforms in such areas as campaign finance ultimately became new conduits for business investment in the political process.[28]

The new subaltern status of labor in U.S. politics was perhaps best illustrated by the failure of moderate labor law reform during the Carter administration. In the late 1970s, labor sought federal redress for so-called open shop laws that had been passed at the state level. In the face of rejuvenated business antiunionism, this attempt to strengthen the National Labor Relations Act failed. As Domhoff suggests, the renewed business-labor conflict revealed the collapse of the liberal-labor coalition that had been able to forward its agenda and increase both real and social wages within the Bretton Woods system.[29]

In our analysis the Carter years were an initial effort at a neoliberalism based upon the old New Deal electoral coalition. The failure to successfully navigate business conflict; especially in the areas of energy policy and federal subsidies to western agricultural interests, led to the defeat of this effort in the Congress, the bureaucracy, and the electorate. Central to this problem was the reaction of key sectors—the aforementioned western interests and even more decisively the defense industries—to the austerity of Carter's neoliberalism.

The Reagan revolution presents itself to us, then, as a coalesced business response to declining profits. Consider the broad range of business interests that are satisfied by the Reaganite "big tent" with its peculiar combination of military Keynesianism and monetarist restraint. Across the board, the costs of capital in the forms of labor, regulation, taxes, and energy were decreased or at least held in check while the subsidization of the defense industries was increased. Here, then, was a neoconservative bloc that even included a subaltern popular component appealing to a broad range of social conservatives, who at the end of the day had little to show for their support for the New Right. But this was a bloc too easily put together in the unifying context of a second Cold War. Its contradictions were most manifest in growing fiscal deficits and the continued stagnation of real wages.

As the Reagan revolution proceeded, sectors of capital split over such crucial issues as the levels of military spending and trade policy. Commercial and investment bankers, joined by computer and data-processing firms with considerable investments in Western Europe, openly criticized Reagan's high rates of military spending and unilateral foreign policy initiatives as interfering with U.S. trade and investment opportunities in Western Europe. By the early to mid-1980s, these firms were financing many of the foundations most critical of Reagan's security policies. However, firms dependent on military spending and on labor-intensive foreign investment, as well as investors in troubled spots of the world economy such as the Middle East, championed high rates of military spending.

Beset by the increased internationalization of the U.S. economy, nationalist firms fought for increased protectionism in trade. Firms that we label regionalists, especially the auto and electronics sectors, pushed for regionally based investment guarantees that promoted the low-cost relocation of U.S. production to the Caribbean Basin (Caribbean Basin Initiative) and Mexico (North American Free Trade Agreement). Meanwhile capital-intensive and globally competitive firms, highly dependent on exports, imports, and foreign direct investment for their profitability, championed multilateral initiatives through the Uruguay Round of General Agreement on Tariffs and Trade (GATT).

The fiscal crisis of the liberal capitalist state reached a peak as the 1990s began. The four years of the Bush administration (1989–1993) saw government deficits reach in excess of $300 billion, levels considered unimaginable in the headiest days of the Keynesian vogue. To be sure, the peak deficits of the Bush years had an efficient cause in the savings and loan crisis/bailout that was rooted in the deregulation of capital markets, the same process of capital market transformation underscored in the globalization and post-Fordism literature.[30] Yet these deficits had, and have, underlying causes that are part and parcel of the crisis of liberalism in U.S. politics.

In 1973 James O'Connor[31] diagnosed the contradiction between the accumulation and legitimation functions of the state. The capitalist state must necessarily facilitate capital accumulation by maintaining a good business climate. This includes a stable currency, interest rates, and the banking system (not to mention the social reproduction of the labor force). This function can be facilitated through deficit spending in a slump, but long-term deficits also appear to disrupt—some would say distort—capital markets. The legitimation function of the Keynesian welfare state had been to facilitate hegemonic consent by providing subordinate social groups with a safety net. The long-term deficit problem is likely insoluble with entitlement reform, a euphemism for rolling back the welfare state, particularly its stronger components that primarily benefit the middle-wage and salary-earning strata.

For present purposes it is not necessary to decide if the deficit is indeed a problem that must be solved. An analysis that is quite sound within a capitalist logic would be that what is more crucial is the long-run ratio of debt to GDP. A permanent debt is perfectly normal, even requisite, in any large-scale corporate enterprise (so too, then, the state in a market economy!). What matters economically is that the debt grow in pace with the economy, not faster. What is significant politically is how the deficit intersects with business conflict and how it can be used symbolically to delegitimate the welfare state.

The Bush administration was caught in the tensions of its own electoral bloc. On the one hand, the capital market sectors demanded that the deficit be brought under control, even if that meant a tax increase (so long, of course, as this increase would fall on wage and salary earners or, better yet, consumers). On the other hand, the industrial sectors, especially those that were attracted to the supply-side ethos, and Bush's mass base among upper-middle-income voters required, as the price of their support, that he keep his pledge of "no new taxes." The budget settlement of 1991 brought these tensions to the surface and fragmented the Reagan coalition in the run-up to the 1992 election.

Additional sources of business conflict in trade policy were illustrated by Pat Buchanan's emergence and the significant opposition to NAFTA within the Republican coalition. While the structural crises of the U.S. economy post–Bretton Woods had taken liberalism out of power, they had also undercut the ability of conservatism to maintain and consolidate power.

This book concludes by mapping out the ideological and sectoral business conflicts of the 1990s. We look at the Republican Party and the efforts of its leaders to create a new hegemonic neoconservative bloc. Also significant from our perspective is the ongoing neoliberal efforts to combine austerity with some of the socially inclusive rhetoric of the old liberalism. Clinton's effort to build a new Democratic bloc relies on the combination of free trade with further cuts in the social welfare state, completing the dismantling of key features of the liberal state from the New Deal through the Great Society. In the Clinton administration's second term, virtually all the social welfare elements of the federal New Deal targeted to the poor are being dismantled in favor of a devolution of welfare policies to the state governments. In addition, the administration has institutionalized much of the Reagan military buildup, maintaining rates of military spending that, in real dollars, are close to the average rates of spending during the Cold War.

Organized labor, seeing Clinton as the last hope for retaining some elements of a state commitment to defending the interests of unions, has remained embedded within the Democratic Party. However, on virtually