October 6, 2018

This is a paper to go with my talk "Instability and Inequality: American Capitalism after the Volcker Shock of 1980." It is a chapter from my forthcoming book, *Ages of American Capitalism*, which is almost finished, but not yet, so I'm looking forward to your comments and criticisms.

Jon Levy

Chapter 18

Magic of the Market

Richard Serra, “Carnegie,” (1985)

In his First Inaugural Address in 1981 Ronal Reagan alluded to “economic affliction of great proportions.” Then, to dramatic effect – in an explicit rejection of FDR’s 1932 First Inaugural – the new president declared, “in the present crisis, government is not the solution to our problem, government is the problem.”[1] What was the solution? The market. Specifically, it was what Reagan would soon call “the magic of the marketplace.”[2]

Surely, “free market” advocacy was not new. In the American past, it had usually taken three forms. First, a positive vision of individualism. Second, a belief in markets as engines of economic betterment. Third, a preference for markets as worthy arbiters of social and political conflict. During the 1980s all three were in play in an utter “contagion” of market metaphors.[3] If from the right there was celebration, reactively from the left there was the neo-Victorian, romantic critique of the market’s greedy corrosive boundary crossing.[4]

At this moment, pro-market advocacy – “neoliberal” ideology as some scholars call it – mattered. But just how much? Certainly, it cannot explain everything. Just because over the years libertarian luminaries like Friedrich Hayek or Milton Friedman said something about “the market” does not mean that when Thatcher became Prime Minister in the UK and Reagan president in the US something necessarily then came to pass.[5] Further, while Reagan’s election

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[1] Ronald Reagan: "Inaugural Address," January 20, 1981. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*.

[2] Remarks made by President Ronald Reagan at the Annual Meeting of the Boards of Governors of the World Bank Group and International Monetary Found delivered on 29 September 1981 in Washington DC.

[3] Daniel T. Rodgers, *Age of Fracture*, (Cambridge: Belknap Press, 2011), 10. On free market advocacy see also Burgin, *The Great Persuasion*; Jennifer Burns, *Goddess of the Market: Ayn Rand and the American Right* (New York: Oxford University Press, 2009).

[4] For a critique, see Viviana A. Zelizer, “Beyond the Polemics on the Market: Establishing a Theoretical and Empirical Agenda,” *Sociological Forum* 3, no. 4 (1988): 614–34.

[5] Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge: Harvard University Press, 2012).

did help augur in a new age of capitalism it cannot be said too many times how little the shift can be attributed to the conscious intentions of he or anyone else in his Administration.

To some degree, history is always the result of unintended consequences. But the Reagan Administration was really something else. In a 1980 campaign commercial, an unemployed white, blue-collar looking man stood in the middle of an idling factory – just waiting for the magic of the market to put it right. Reagan promised that letting the market decide would lead to a surge in private savings, investment, productivity growth, and profits all together in a grand national manufacturing revival. Also, there would be a reduction in federal spending, a balanced federal budget, and a lower national debt. In international finance, candidate Reagan favored a return to the gold standard.

None of this happened. Reagan delivered on one economic promise, which was the military buildup of his early confrontational stance towards the Soviet Union. High-tech and weapons based, it was a far less employment-intensive version of the old "military Keynesianism." "They had monetarist doctrine, supply-side doctrine, libertarian doctrine mixed together." It "wasn't terribly coherent," recalled Chairman of the US Federal Reserve Paul Volcker. Of Reagan, Volcker surmised: "I speculate that he was not a highly sophisticated economist."[6]

Reagan put faith in what his favorite supply-side economics intellectual George Gilder called the "metaphysical capital of human freedom and creativity."[7] Perhaps Gilder was right and the demand-side Keynesians had the cart before the horse. If so, the supply siders bet on a horse that turned around and ran the wrong way. By the end of Reagan's first term the character

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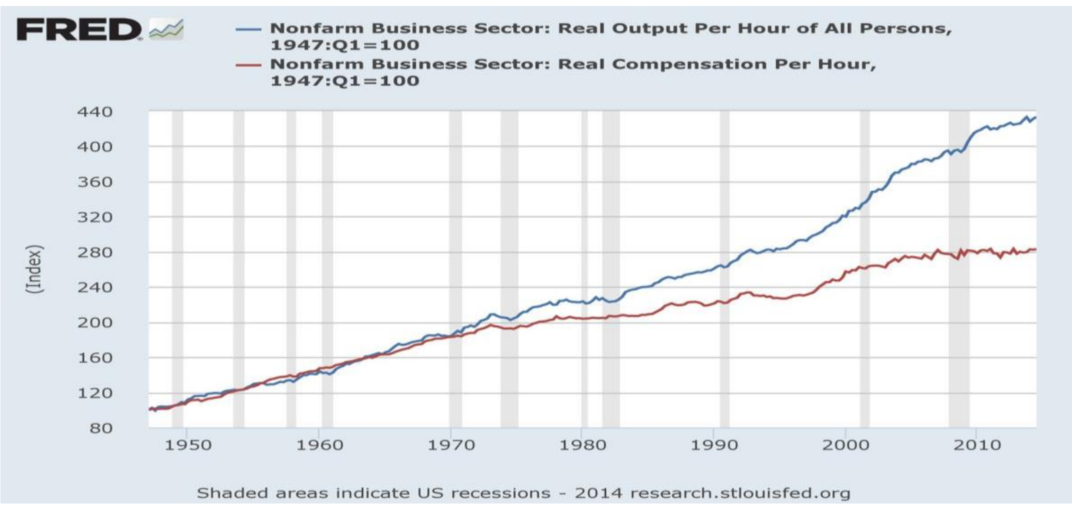
[6]http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_paulvolcker.html
[7] George Gilder and Steve Forbes, *Wealth and Poverty: A New Edition for the Twenty-First Century* (Washington, D.C. : New York: Regnery Publishing, 2012).

of capital investment and the composition of capital had changed but no amount of nostalgia for a mythologized industrial past could change the fact that there was no going back to postwar industrial society. Instead, a new, unexpected capitalism was born.

After 1980, the industrial political economy of male pay, of labor earnings, which had settled privately owned capital on the ground in fixed, illiquid structures, leading to increased productivity over time – in formation as far back as the 1870s, in terminal crisis across the 1970s – passed from the scene. What arose instead was a new *political economy of asset price appreciation*. The past rate of productivity growth, missing since 1973, did not return. It now severed from average growth in labor earnings.



The economy continued to bleed male manufacturing jobs (*jobs*, not output or value added) as low paying feminized service jobs accounted for a larger share of employment. Meanwhile, high paying jobs in financial and related "business services" began to earn a far greater share of income. If before the growth of incomes was achieved through the *depreciation* of fixed capital, which was used up in production and lost value as it yielded by both profits and pay, now income growth began to take place much more so through activities linked to capital asset price *appreciation*. During the 1980s, this focused upon the asset classes of commercial real estate and corporate securities. As the share of private debt to GDP climbed back into 1920s territory, leverage commonly inflated increases in asset prices and thus profits (and potential losses). In short, in the growth of incomes the ownership of capital assets became more prominent relative to labor compensation flowing from capital depreciating in production.[8] The last time property ownership, relative to income, was this central to American capitalism Abraham Lincoln was running of president.

For the new political economy to function, the necessary ingredient was liquidity. For one, there was an increasing preference – "liquidity preference," as Keynes put it – among the owners of capital to *not* hold illiquid investments and thus to *not* be burdened by fixed, heavy commitments in place. To keep investment options open and commitments light was much better. Capital must always be convertible. Short-term speculation and hoarding become more attractive. Together, they may draw the macroeconomy away from committed, long-term investment.   That is what happened. The secular trend became an ever-declining share of fixed (nonresidential) investment relative to GDP. The macroeconomic expansion of the 1980s is the *only expansion on record in US history* in which fixed nonresidential investment declined as a share of GDP.

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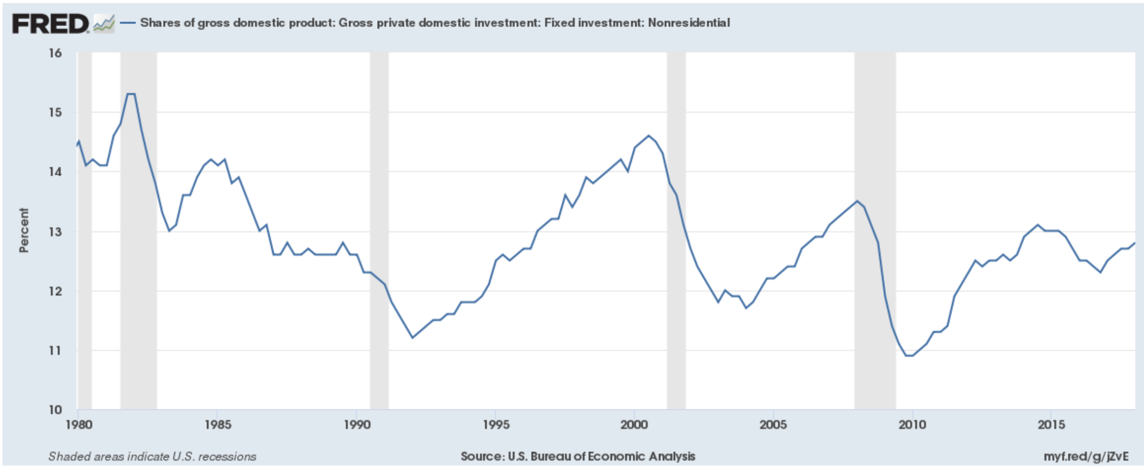
[8] Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *The Quarterly Journal of Economics* 133, no. 2 (May 2018): 553–609; Maurizio Franzini and Mario Pianta, *Explaining Inequality* (New York: Routledge, 2015), 64-67.



Liquidity is a relative quality of an asset, dependent upon the ready presence of willing buyers for it in a market. During this period the principle of liquidity – the possibility that one thing, chameleon-like, can be frictionlessly exchanged out for something else, and back again, and over again, without moving or opportunity cost – began to appear in many places besides capital markets. If in burgeoning global currency markets dollars exchanged out for yens, pounds, or marks, and if in new over-the-counter markets banks began to sell interest rate "swaps," also at the same time as more women entered the workplace gender identity became more "fluid."[9] A like process went to work on institutions.[10] In political economy, for profit and nonprofit corporations increasingly partnered up. The "nonprofit sector" of hospitals, museums, universities, and child-care centers across the 1980s grew at a high clip, while Reagan's 1981 "Task Force on Private Initiatives" promoted the "privatization" of public functions – whether it was welfare delivery or incarceration. Public and private, home and work, for profit and not, all began to change out. The boundaries between many of the structuring spheres of industrial society began to corrode. With capital leaving physical structures, what

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[9] In the sociological register, see Zygmunt Bauman, *Liquid Modernity* (Malden, MA: Polity, 2000).
[10] In the institutional register, see Jonathan Levy, "From Fiscal Triangle to Passing Through: Rise of the Nonprofit Corporation," in Naomi R. Lamoreaux and William J. Novak, eds. *Corporations and American Democracy* (Cambridge: Harvard University Press, 2017), 213-244.

exactly was *not-capital* became ever more difficult to tell. There was now even "human capital," which appreciated according to levels of investment in education.[11] In sum, if the polity fractured during the legitimation crisis of he 1970s during the 1980s the different bits began to exchange out, turn inside out, swap out, and pass through.[12]

Liquidity meant economic life became more chaotic. But then, at the same time, the macroeconomic expansion of 1982-1990 was the longest postwar business expansion on record and so, in this new era, would subsequent expansions be (1991-2000; 2001-2007; 2008-) relative to postwar business cycles. The seeming paradox can be resolved, and here Reagan's invocation of the "magic of the marketplace" must be taken very seriously indeed.

For liquidity was dependent upon *the belief* in capital markets that there would always be a willing buyer for an asset. Confidence sustained leveraged profit making, as the presence of liquidity supported another belief in capital markets, which is that debts can forever be rolled over. Yes, Reagan's "magic of the marketplace" expressed the former Hollywood actor's belief that "Politics is just like show business."[13] And, how nice it would be if a magic wand could instantly solve the deep-seated 1970s legitimation crisis of industrial capitalism? A "crisis of confidence" President Carter had called it in 1979 and less than two years later Reagan would be celebrating "Morning Again in America." But the magic of the market also captures the belief among the owners of capital that a market will always exist for an asset. The material effect of that belief was a feedback mechanism, in which made capital markets became more convertible

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[11] Claudia Dale Goldin and Lawrence F. Katz, *The Race between Education and Technology* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2008).

[12] Rodgers, *Age of Fracture*; James Livingston, *The World Turned Inside Out: American Thought and Culture at the End of the 20th Century* (Lanham, Md: Rowman & Littlefield Publishers, 2009).

[13] J. Jeffery Auer, "Acting like a President; or, What Has Ronald Reagan Done to Political Speaking?" Michael Weiler and W. Barnett Pearce, *Reagan and Public Discourse in America* (University of Alabama Press, 2006), 95.

and liquid, and thus more linked, and thus more like the one big idealized “the market” that pro-market ideologues celebrated.

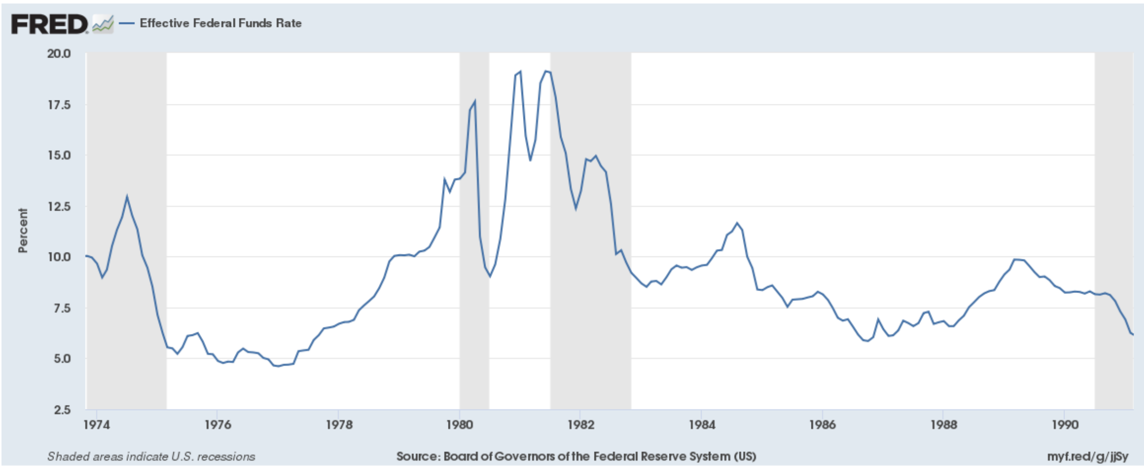
However, no amount of pro-market ideology could change the fact that if liquidity ever dried up in financial markets…. panic! The new political economy depended upon the tenuous emotional state of confidence in capital and credit markets more than ever before. But, if beliefs existed, then capitalism after 1980 could sustain longer business expansions – if of a particular, new kind.

Perhaps what calls out for explanation is how a new everyday experience of indeterminacy in economic life during the 1980s and since began to couple with what now, in hindsight, have added up to some durable long-term patterns and trends. This would include workforce feminization; the explosion of public and private debt; a reduced trend line in productivity growth; bulging US current account deficits with the world and a reconfigured US global hegemony; the incarceration of underemployed black men; the stark rise in economic inequality; the return of financial panics absent since the Great Depression; the regulatory hegemony of the Federal Reserve. There may not have been the old industrial structures. But this was not only a “post” industrial economy. Something new and distinctive was taking shape.

2.

The new capitalism required a new political economy. But initially the political action was not so much in the White House, or in the Congress, but down the street at an administrative agency, the US Federal Reserve. In 1979, President Jimmy Carter had appointed Paul Volcker chairman of the Fed. Inflation, Volcker would say, “was a dragon that was eating out our innards, or more than our innards."[14] So, reducing inflation was a priority. Reagan became president in the middle of the Volcker interest rate "shock."

The Fed's experiment with monetarism – targeting the aggregate quantity of money instead of the short-term "federal funds" interest rate in Treasury repo market – was an example of letting the market decide, in this case the interest rate. The market decided on high, volatile interest rates, which, surprising even Volcker, reached 20 percent.



The US macroeconomy plunged into the double-dip recession of 1980 and 1981-2, the worst since the Great Depression. The initial downturn contributed to Reagan's election, but on the campaign trail Reagan had mentioned a return to the gold standard, not monetarism. Once in office, Reagan largely left Volcker to his job. "I think he had some kind of a feeling that the Federal Reserve was trying to deal with inflation," Volcker said.[15] Unemployment reached 10.8 percent and the Fed ended the monetarist experiment in October 1982, halting the recession. But the shock worked and the dragon of inflation was slayed. This was a considerable achievement, which began to monetary policy to the center of economic policymaking.[16]

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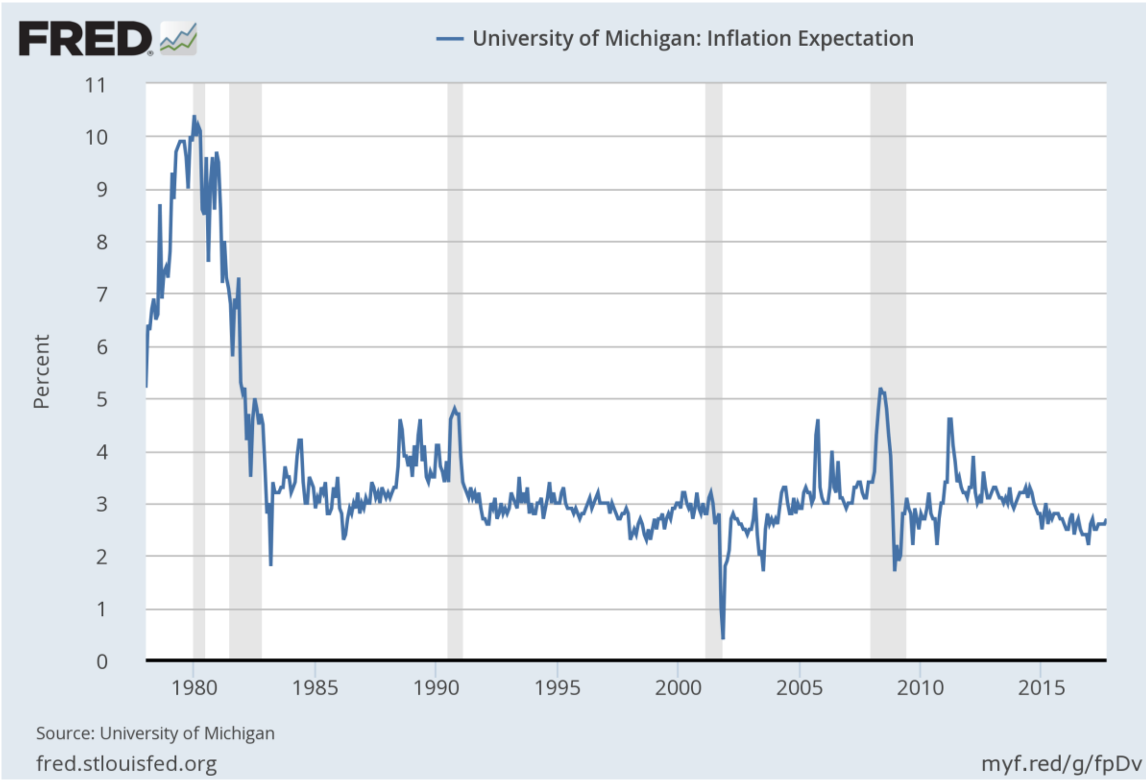
14 http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_paulvolcker.html
15 http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_paulvolcker.html
16 Thomas J. Sargent, *The Conquest of American Inflation* (Princeton, N.J: Princeton University Press, 1999).



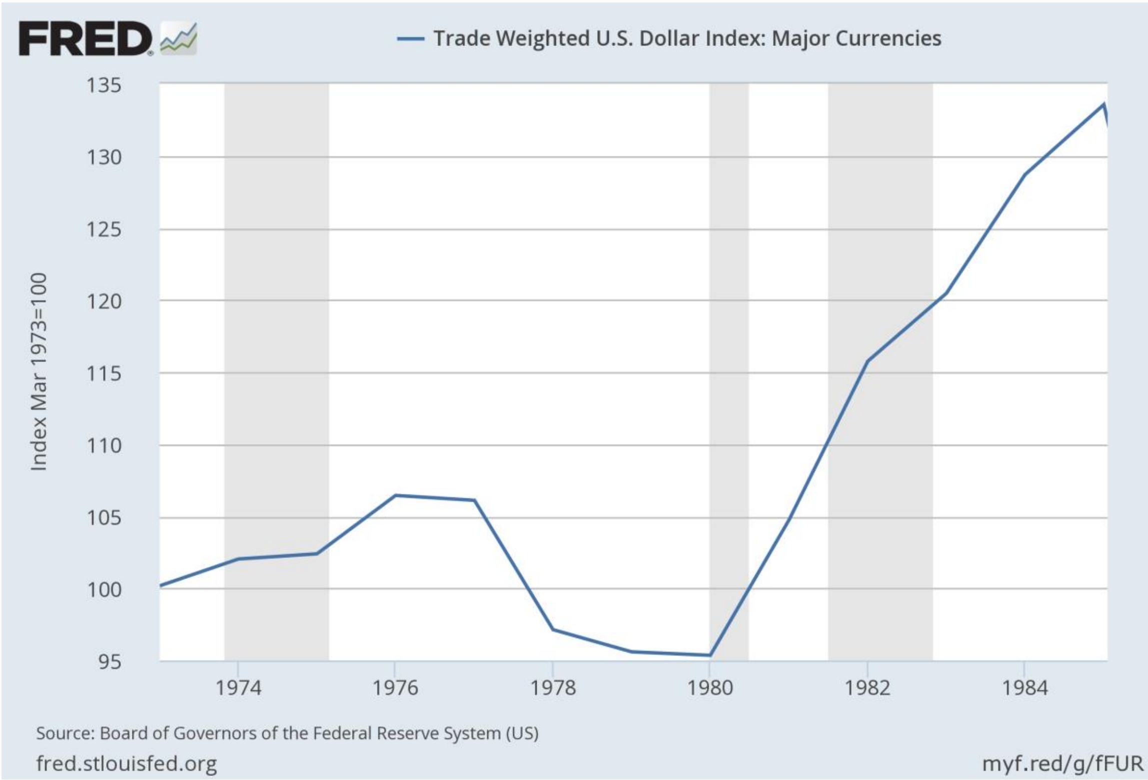
The Volcker shock was a reboot for economy but also politics. This was a policy regime change not seen since the days of FDR. Surely, no democratic government since the Great Depression had believed that government-induced double-digit unemployment was a legitimate policy option. But the US state had failed to solve the stagflation crisis of the 1970s. Volcker was not a very popular public figure during the 1980-2 recession but he sensed he had room to maneuver, and he was correct. Everyone, he surmised, sensed "that something had to be done."[17] Volcker himself was no follower of Milton Friedman's monetarism. He thought forward expectations determined inflation, not the aggregate quantity of money. But politically monetarism provided good political cover. The Fed was not responsible for setting punishing interest rates. The market was deciding.

[17] http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_paulvolcker.html

Except, not really. The Federal Open Markets Committee (FOMC) retained broad discretionary power and this was emblematic of what market "deregulation" across the decade often looked like. Regulation is no zero-sum game. In policymaking, power was shifting from the Congress and the Presidency to administrative agencies.[18] Above all, the Fed ascended to regulatory preeminence. The byword would soon become the need for central bank "independence" from elected politicians.[19]

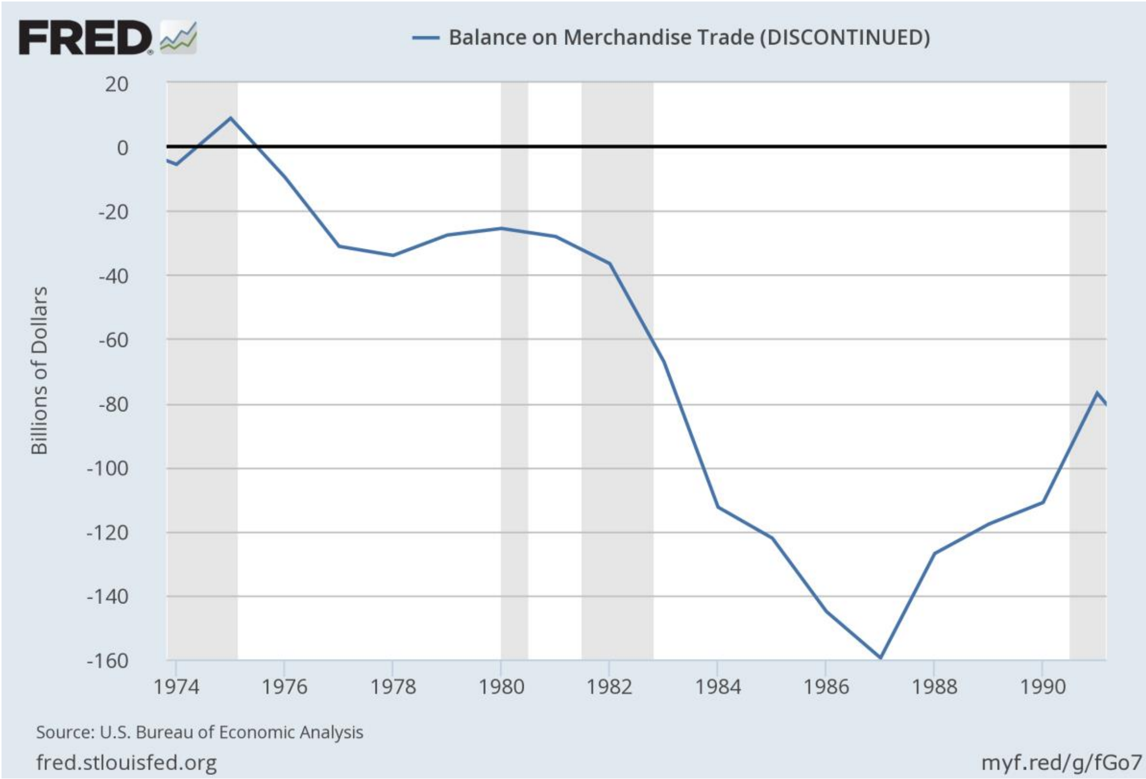
The US Fed in fact began to ascend to global economic preeminence. In the global economy, the Volcker Shock led to an utter transformation in the mechanics of US hegemony. Inflation had threatened the primacy of the US dollar as the global currency of transaction and reserve. This had spooked Carter and Volcker. "I was certainly worried about the United States in terms of its place in the world," Volcker recalled. "I grew up in a generation where you naturally look upon the United States as being the last great hope of mankind." The high US interest rates of 1979-82 not only slayed inflation. It threw the world's economies into recession, ending the high world commodity prices of the 1970s. It thus broke the back of high global oil prices, one cause of high US inflation. High interest rates also began to recruit "hot money," r short-term capital, flowing ever more freely across national borders after the death of Bretton Woods, into the US, thus bidding up the dollar.

[18] Nitsan Chorev, *Remaking U.S. Trade Policy: From Protectionism to Globalization* (Ithaca: Cornell University Press, 2007), 195-210; Saskia Sassen, *Territory, Authority, Rights: From Medieval to Global Assemblages* (Princeton University Press, 2006).
[19] Peter Conti-Brown, *The Power and Independence of the Federal Reserve* (Princeton: Princeton University Press, 2016). At the time see, Robert J. Barro and David B. Gordon, "Rules, Discretion and Reputation in a Model of Monetary Policy," *Journal of Monetary Economics* 12, no. 1 (January 1, 1983): 101–21.



Thus began a new global trend in which capital ran "up hill," from low-income national economies (and soon Europe) into US capital markets.[20] Meanwhile, the high US dollar harmed US manufacturing exporters, while US imports, cheaper because of the high dollar, increased. The US trade deficit yawned. Post-Volcker shock, it would be financed by global capital inflows, which closed the gaping US current account deficit. The global primacy of the dollar was thus secure, and Volcker had wielded it to great effect, punishing third world commodity producers (including, it would turn out, the Soviet oil economy).

[20] Eswar Prasad, Raghuram Rajan, and Arvind Subramanian, "The Paradox of Capital," *Finance and Development* 44, 1 (March 2007): 1-8.



In short, the Volcker Shock launched a second, more novel US global hegemony. After WWII, like many world hegemons before, the US was an exporter of both capital and goods to the world.[21] Post-Volcker shock the flows reversed. Now the US imported global capital and became the consumer market of last resort for the world's producers.[22] Relative to many more export-led national economies, the US remained rather "closed," with world trade comprising a very small percentage of GDP. But that small percentage could matter very much, and the new global configuration will, at specific moments, have great consequence.

For instance, concern about the dollar factored into the Fed's decision to turn to monetarism, but the consequences of high interest rates for the US national economy were significant. Among the US owners of capital, the Volcker Shock accelerated changes in the

[21] Giovanni Arrighi, *The Long Twentieth Century* (New York: Verso, 1994).
[22] Charles S. Maier, *Among Empires: American Ascendancy and Its Predecessors* (Cambridge, MA: Harvard University Press, 2006).

character of capital investment. The 1980-2 recession witnessed a massive corporate purge of male-employment intensive, fixed capital stock.[23] Some it was superannuated, but some not. The new emphasis was on immediate short-term profit making through asset price appreciation. This was literally the opposite of Reagan's promised manufacturing revival.

In some sense, the purge was a long time coming. The US profit rate, especially for industrial corporations, was in decline ever since 1965.[24] Deindustrialization began, and capital shifted towards the low-wage US Sunbelt south, and also abroad. In 1977, there was the rolling wave of steel plant closures in Ohio and Pennsylvania. Still, recall that across the 1970s the industrial managerial class had tried to invest their way out of the profitability crisis. Not any more. Disinvestment intensified and between 1979 and 1983 employment in "durable goods manufacturing" employment fell by 15.9 percent, more than 2 million jobs – overwhelmingly male.[25] In 1982, prime age male employment fell below 85 percent, while employment in the (relatively more feminized) service sector finally surpassed employment in manufacturing.

What had happened? A new corporate conception of capital investment had been brewing for some time. Business consultancies and finance-trained corporate managers drew from financial economics, whether it was "portfolio theory," or the "capital asset pricing model," which re-conceptualized corporate divisions as portfolios of stocks.[26] Postwar managers had been committed to "growth," in production and market share, and a long-term rate of return on

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[23] Barry Bluestone and Bennett Harrison, *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry* (New York: Basic Books, 1982).
[24] Edward N. Wolff, *A Century of Wealth in America* (Cambridge: Harvard University Press, 2017), Figure 1.11, 27.
[25]William Lazonick and Mary O'Sullivan, "Maximizing Shareholder Value: A New Ideology for Corporate Governance," *Economy and Society* 29, no. 1 (January 2000): 19.
[26] Perry Mehrling, *Fischer Black and the Revolutionary Idea of Finance* (Hoboken, N.J: Wiley, 2005).

investment (ROI) in physical production. But with profits sagging, time had run out. The new goal was to maximize an immediate risk-weighted "return on equity." Thomas E. Copeland and J. Fred Weston's *Financial Theory and Corporate Policy* (1979) distilled the new thinking in linear equations.[27] But the basic point was clear. Pull capital from less profitable lines of production and deploy them wherever more immediate profits can be made.

That sounds obvious. Maximize profits. But the new corporate conception of capital assumed liquidity – the convertibility of capital and minimal "frictions" in its redeployment. On the ground there were frictions, of course, including the lives of human beings. But what the Volcker shock did was create an easy justification for industrial corporate managers to stop reinvesting in unprofitable, male-employment intensive capital stock. High nominal interest rates discouraged the inducement to invest in general, while interest rate volatility made expectations more uncertain, additionally encouraging hoarding. But as Volcker slayed inflation, why not park capital in a bank account and earn profits through interest accrual? Across the Volcker Shock, the percentage of manufacturing firms' cash flow from "portfolio income," whether dividends, capital gains, or interest accrual, climbed from 20 to 40 percent, and, as a share of portfolio income, interest accrual, which stood at 40 percent in 1965, climbed to over 70 percent.[28] "In the deepest sense," one business consultant explained, looking back, "a profit orientation could not drive planning as long as concern for physical process dominated the thinking of those who managed resources."

The century-old Northeast-Midwest US manufacturing belt was only further ravaged. The Midwest suffered the most. For many working people the new "profit orientation" was

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[27] Thomas E. Copeland and Fred J. Weston, *Financial Theory and Corporate Policy* (Addison Wesley, 1979).

[28] Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge: Harvard University Press, 2011),Figure 4, 36, Figure 6, 38 .

experienced as something like a shock. After the late 1970s wave of closures in Ohio and Pennsylvania the next round of steel closures hit the Calumet region of South Chicago and Northwest Indiana in 1980, eliminating 90,000 manufacturing jobs, and was met with "bewilderment" and "disbelief," because many of the factories were profitable, just not profitable enough by the new criteria, applied at an ever-increasing distance by executives from the "physical process."[29] The new CEO of US Steel, David Roderick declared the corporation was "no longer in the business of making steel." It was "in the business of making profits." US Steel announced major layoffs in Pittsburgh, shut down the old Carnegie Homestead steelworks (which became a shopping mall), and built a new, highly automated facility in Houston. By 1984, having bought Marathon Oil, steel represented only one-third of US Steel assets.[30]

Capping this deindustrialization cycle, Bethlehem Steel closed its sprawling Lackawanna, New York steelworks outside Buffalo. As steelworker Benjamin Boofer recalled, "things got to booming pretty good, then all three plants going like crazy, and then things fell apart completely one day." Kenneth Sion added, "Everything was booming, and all of a sudden it stopped, just like that."[31] That was not true. Things had not been booming. But postwar industrial corporate managers, through the 1970s, had been committed to investing capital in production and now a new generation no longer wanted to settle capital in illiquid assets. There was nothing Boofer, Sion, or their union could do about it. Unlike in some other countries, disinvestment was not

29 Christine J. Walley, *Exit Zero: Family and Class in Postindustrial Chicago* (Chicago: University of Chicago Press, 2013), 57.
30 Tracy Neumann, *Remaking the Rust Belt: The Postindustrial Transformation of North America* (Philadelphia: University of Pennsylvania Press, 2016), 86.
31 Milton Rogovin and Michael Frisch, *Portraits in Steel* (Ithaca: Cornell University Press, 1993), 93, 137.

subject to US collective bargaining agreements.[32] One day, the factory closed. No different from managers many workers had a "concern for physical process." The metaphor of body and plant appears time and again in the thick stack of deindustrialization ethnographies. Lackawanna steelworker Dick Hughes said, "you feel it's a part of your life, it's a party of your body." "It's like getting a part of your stomach cut off, if the plant closes."[33]

Capital was on the move. Manufacturing was recomposing, becoming less capital intensive, and further automating. Many lost jobs were not coming back. And there was more shock, for organized labor. In 1980, 42 percent of union households voted for Reagan. In 1981-2, the AFL-CIO, still the largest labor organization in the world, lost a staggering 739,000 members.[34] In August 1981, the Professional Aircraft Traffic Controllers Organization (PATCO) voted to go on strike over pay. Reagan granted PATCO a 48-hour deadline for members to return to work and when they did not the president replaced them. Which was technically legal, but a step few employers had been willing to take since the New Deal.[35] Emboldened, private employers followed. The number of strikes plummeted.[36] In the US, male-employment intensive industry was fast becoming a dead end for organized labor.[37]

Meanwhile, the Fed finally ended the monetarist experiment in October of 1982. But not before practicing new and critical functions in capital markets. New Deal-era regulations –

[32] Dale A. Hathaway, *Can Workers Have a Voice?: The Politics of Deindustrialization in Pittsburgh* (University Park.: Pennsylvania State University Press, 1993).
[33] Rogovin and Frisch, *Portraits in Steel*, 111.
[34] Timothy J. Minchin, *Labor Under Fire: A History of the AFL-CIO since 1979* (Chapel Hill: The University of North Carolina Press, 2017), 58, 70.
[35] Joseph A. McCarty, *Collision Course: Ronald Reagan, the Air Traffic Controllers, and the Strike That Changed America* (New York: Oxford University Press, 2011).
[36] Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945-2005* (London: Verso, 2006), Figure 12.3, 208.
[37] Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New York: New Press, 2010), 353-371.

walling off different silos of the financial markets from one another to channel capital and credit towards specific ends – were crumbling. During the inflationary 1970s, banks had suffered under "Regulation Q" interest rate caps on deposits. To circumvent them, banks created new financial products, such as money market funds, or Certificates of Deposits (CDs), for consumers. From this basis new sources of short-term interbank money market funding became available in this unregulated "shadow banking" sector, complementing the overnight, Fed dominated Treasury repo market (federal funds), and the interbank Eurodollar money market in London. Relenting, under Carter in 1980 Congress abolished Regulation Q interest rate caps on savings deposits.

Continental Illinois Bank of Chicago was the sixth largest bank by assets in the US, but by 1982 was on the brink of failure.[38] The Bank, taking advantage of new sources of funding liquidity in the money markets, had increased leverage and made a number of risky loans, which had gone bad – including to speculative domestic oil producers. With bank industry siloes weakening, Continental's failure threatened contagion. The Fed bailed it out, funding Continental's debts by accepting collateral that no private actor would accept. Continental was "too big," but also too *interconnected* to fail. John Shad, the Reagan-appointed chairman of the SEC, informed Congress in 1983 of the "unprecedented movement of capital." "New financial products" that bridged "traditional gaps" overwhelmed "regulation by industry categories." Capital was even "thundering over, under, and around Glass-Steagall."[39] Ever more liquid

[38] Diana B. Henriques, *A First-Class Catastrophe: The Road to Black Monday, the Worst Day in Wall Street History* (New York: Henry Holt and Co., 2017), 133.
[39] United States Congress House Committee on Energy and Commerce Subcommittee on Telecommunications Finance Consumer Protection, and, *FDIC Securities Proposal and Related Issues: Hearings Before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the Committee on Energy and Commerce, House of Representatives, Ninety-Eighth Congress, First Session, June 16 and 28, 1983* (U.S. Government Printing Office, 1983), 3.

capital could more quickly rush across asset classes and in and of institutions. But it could just as easily rush out to seek safe haven if confidence departed. Instantly, Continental could no longer fund itself in private money markets. A Japanese sell-off in the wake of an unfounded rumor would lead to a run on Continental stock. For highly leveraged banks like Continental, illiquidity threatened insolvency. But the Fed could come to the rescue. The Fed could backstop liquidity in capital markets.

Further, in this same year, 1982, the Fed's responsibilities for the global economy expanded significantly. On June 30, 1982, the FOMC met to discuss the "saga of Mexico." Mexico, among many Latin American countries, had taken advantage of the low real cost of capital and high world commodity prices during the inflationary 1970s to borrow heavily in capital markets. US commercial banks had recycled many "petrodollars" from oil-producing economies into Latin American public debt.[40] But the unexpected Volcker Shock plunged the world into recession and commodity prices fell. No different than for Continental, high interest rates made it more difficult for Latin American sovereigns to roll over their debts. Mexico was the most exposed country and Citibank was the most exposed US commercial bank. Chairman Walter Wriston had predicted that, "countries don't go bankrupt."[41] But in the summer of 1982 investors were questioning that belief. Mexico was suffering short-term capital flight. In June 1982, the Fed was debating whether to grant Mexico a $600 million credit line, an injection of liquidity that was only a bridge loan to a much larger International Monetary Fund (IMF) bailout.

During the deliberation, Fed Governor Ford remarked, "$600 million is peanuts." The Fed must get "at the element of the flight of capital." There were no longer cross-border capital

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[40] Robert Devlin, *Debt and Crisis in Latin America: The Supply Side of the Story* (Princeton: Princeton University Press, 2016).
[41] "International Finance: An Interview with Walter B. Wriston,"
Fletcher Forum of World Affairs 8 no. 2 (1984): 249

controls, in the long wake of Bretton Wood's demise. Volcker responded, "I don't know what is going to happen with regard to the flight of capital." We "can speculate about everything" when it came to capital flight, Volcker informed his colleagues. "I don't know how to do this," he added. If any one person was responsible for the global economy at this moment it was Paul Volcker, and if he did not know, that said something about the fundamental indeterminacy that was being wired into a new global political economy. How much did US commercial banks owe to Mexico, Volcker asked? Vice Chairman Solomon answered, "$20 odd billion." "Well," Volcker responded, "that's big."[42]

With capital moving across borders a Mexican default could lead to a rolling international financial panic. The Fed approved the loan, to get to a nearly $4 billion IMF bailout. US banks booked losses, though not crippling ones. This would not be the last go at the IMF's "structural adjustment" of Mexican economy and public finances. Austerity measures were recommended. Global financial crisis management for the US Fed was to become the new normal. Volcker's Fed started it, Alan Greenspan took it to new heights during the 1998 Asian Financial Crisis, and in September 2008 without the interventions of Ben Bernanke's Fed the global economy would have collapsed.

An epoch was opening, to be defined by commitment-less global capital movements across space. It is not an era so well explained by linear, national narratives of economic history across time, which were after all *postwar political narratives* – about how to settle and control capital in place. From even Volcker's chair, global economic events were not looking very purposeful. Thus, there is another possible meaning for Volcker "shock." Often Volcker, no different from a laid off Lackawanna steelworker, was surprised at the course of global economic

[42] "Meeting of the Federal Open Market Committee, June 30-July 1, 1982," 27, 30.

events that had followed from his actions as well as their seeming unpredictability. If capital is kept undecided then Volcker was right. We "can speculate about everything." What a fitting epigram for a new economic age that would suffer more from indeterminacy than the inflationary malaise that Volcker's Fed had slayed.

3.

If during the 1980-2 recessionary conjuncture the Fed seized the reigns of economic policymaking the Reagan Administration did still make some contributions to the political-economic transformation. Motivated by anti-state free market ideology, in 1981 Reagan pushed through a new budget, which included the Economic Recovery Tax Cut of 1981. When Volcker lifted the recession the tax cut would have economic consequences. Just not the ones the Reagan Administration intended or expected.

Coming into office the top policy priority was a tax cut. Candidate Reagan's pollsters discovered that tax cuts were broadly popular and the Reagan Administration had found common cause with a new pop economic theory, "supply side" economics, promoted by New York Congressman Jack Kemp in tandem with the *Wall Street Journal*'s Jude Wanniski and an academic economist, Arthur Laffer. The "Laffer curve" illustrated that high taxation at some threshold led to lower tax revenue, because it dis-incentivized economic activity, whereas lower taxes, unleashing supply-side forces, led to more economic growth. That meant lowering taxes to a point should lead to more fiscal revenue.[43]

Kemp sponsored the Economic Recovery Tax Act of 1981. Reagan rolled out the plan in a February 18, 1981 speech, which polled well, so Congressional Democrats, having lost the

[43] Michael J. Boskin, "Taxation, Saving, and the Rate of Interest," *Journal of Political Economy* 86, no. 2, Part 2 (April 1978): S3–27.

Senate in 1980, but controlling the House, decided to only advocate for a more "responsible" tax cut. Personal income tax rates came down across the board, by 25 percent total. The top rate was slashed from 70 percent to 50 percent. The bottom rate declined from 14 to 11 percent. The capital gains rate fell from 28 percent to 20 percent. The corporate tax rate remained roughly level, at 46 percent. But through a new formula – 10-5-3, 10 years for buildings, 5 years for machines, 3 years for trucks and automobiles – capital depreciation rates for tax purposes accelerated, which was supposed to induce fixed investment, and thus revive manufacturing. The government projected the tax cut to lead to a $480.6 billion revenue loss.[44] Would the numbers add up according to the Laffer curve? George Schultz, the former Nixon Treasury secretary, current Bechtel executive, and soon Reagan's Secretary of State, promised the tax cuts would have an "electric effect on expectations." The tax cut was meant to be a supply-side elixir for capital, and down the entrepreneurial hatch it went.[45]

Let the market take care of the federal budget (although the immediate costs of the 1981 tax cut were so steep that Reagan and Congress the next year had to slip in a tax increase for businesses, much to the dismay of the business lobby). [46] On the spending side, Reagan's proposed 1981 budget proposed $40 billion of cuts. For instance, the last Carter budget allotted $30 billion for supply management farm policies, including direct subsidies. The first Reagan budget targeted $20 billion of cuts. But they did not make it through Congress. When Congress

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[44] Joseph White and Aaron Wildavasky, *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s* (Berkeley: University of California Press, 1989). Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: University of Chicago Press, 2006), 45-61.
[45] Emma Rothschild, "Reagan and the Real America," *The New York Review of Books* (February 5, 1981).
[46] Monica Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," *Journal of Policy History* 24, no. 3 (July 2012): 351–83; Eugene Steuerle *The Tax Decade* (Washington, DC: Urban Institute Press, 1992), 186..

was finished, after increasing military spending the rate of spending growth was only barely restrained. What was cut steeply was the means-tested track of welfare programs (not Social Security). The 1981 budget cut Aid To Families with Dependent Children (AFDC) by 14.3 percent, Food Stamps programs by 13.8 percent, and Medicaid by 2.8 percent. Federal eligibility criteria were also restricted, eliminating an estimated 442,000 cases.[47] Among programmatic changes, contracting with nonprofit and for profit corporations to deliver welfare services was encouraged. Employment training was cut to the bone, but states were allowed to enforce "workfare" requirements for recipients, like Reagan had when he was Governor of California, and had targeted phantom "black welfare queens."[48] In the midst of a recession, the federal government punished the poor. Yet another political-economic trend was born.[49]

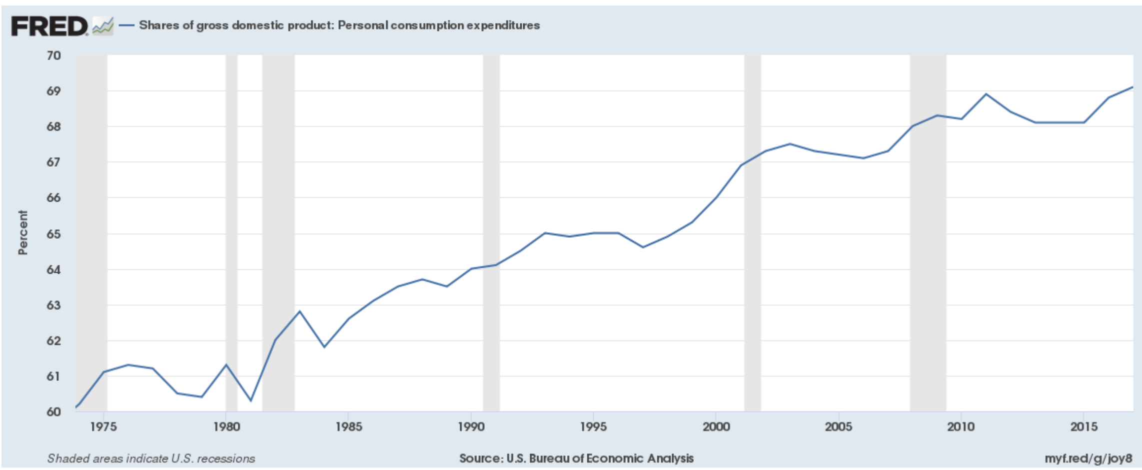
4.

The post-1982 macroeconomic expansion had new dynamics and patterns, different from the past, which it shared with every macroeconomic expansion to come (so far). There arose the new political economy of asset price appreciation. Since the post-1982 macroeconomic expansion was the first in this new series, it is worth exploring in some detail.

First, staying in the macro register, unlike what the Reagan Administration promised there was no private investment boom. Because of military spending there was only a public investment surge in high-tech weaponry, which flowed to engineers and scientists in government

[47] John O'Connor, "US Social Welfare Policy: The Reagan Record and Legacy," *Journal of Social Policy* 27, no. 1 (January 1998): 40, 43.
[48] Julilly Kohler-Hausmann, *Getting Tough: Welfare and Imprisonment in 1970s America* (Princeton: Princeton University Press, 2017), 140-206.
[49] Loïc Wacquant, *Punishing the Poor: The Neoliberal Government of Social Insecurity* (Durham: Duke University Press, 2009).

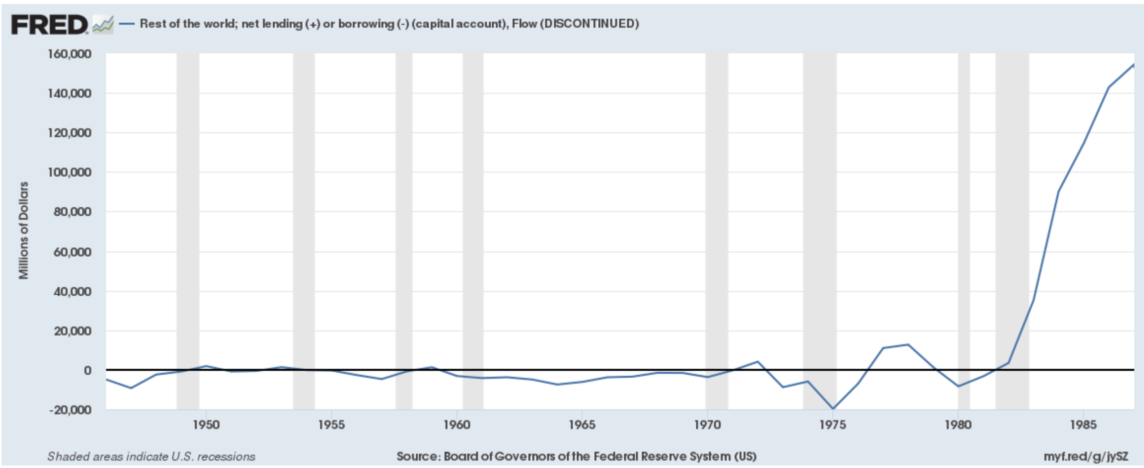
and university funded laboratories in the Sunbelt (or "gunbelt").[50] Multinational corporate investment continued to flow abroad at a higher rate.[51] The value of new US "industrial structures" between 1981 and 1986 declined by one third.[52] For nonfinancial US firms, the ratio of net acquisitions of financial to tangible assets climbed from 40 percent to 58 percent.[53] Thus, the post- 1982 expansion is the only one on record in which gross investment as a share of GDP declined. This inaugurated a general trend independent of business cycles. Personal consumption accounted for a rising share of GDP.



What sustained personal consumption, if median pay was flat? Reagan's policies did not bring about a surge in the household saving rates. Instead, household debt ballooned, compensating for earnings.[54] Outstanding consumer credit loans, mostly credit cards, sold by commercial

[50] Scott Campbell, "Interregional Migration of Defense Scientists and Engineers to the Gunbelt during the 1980s," *Economic Geography* 69, no. 2 (April 1, 1993): 204–23.
[51] Robert Fitzgerald, *The Rise of the Global Company: Multinationals and the Making of the Modern World* (Cambridge, UK: Cambridge University Press, 2016), 482.
[52] Emma Rothschild, "The Reagan Economic Legacy," *New York Review of Books* (July 21, 1988).
[53] Krippner, *Capitalizing on Crisis*, Figure 7, 39.
[54] Rowena Olegario, *The Engine of Enterprise: Credit in America* (Cambridge: Harvard University Press, 2016), 172-216.

banks, doubled across the 1980s.[55] In the global economy indebted American consumers purchased imports of the world's manufacturing export-led economies. To close the US current account the savings of these countries, especially Japan, flowed into US capital markets.[56]



This was the general post-Volcker pattern. With financial markets less divided by government regulations, and capital more liquid, free to flow across borders, markets, and institutions, the interest rate more singularly determined the flow of investment. Global interest rates began to converge.[57]

The Fed had created a low inflationary environment, which was to last (through this writing). Yet, interest rates remained by historic standards high across the 1980s. Fearful of inflation the Fed kept short-term rates up. In addition, long-term rates US remained high because of Reagan's prodigious budget deficits.[58] No, the magic of the market did not increase federal revenues. But foreign capital rushed in to fund US budget deficits. Capital was available

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55 Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton University Press, 2011), 281-287.
56 R. Taggart Murphy, *The Weight of the Yen: How Denial Imperils America's Future and Ruins an Alliance* (New York: W W Norton & Co Inc, 1996).
57 Kei-Mu Yi and Jing Zhang, "Understanding Global Trends in Long-run Real Interest Rates," *Economic Perspectives* 41, no. 2 (2017), pages.
58 Martin Feldstein, "The Dollar Exchange Rate," Remarks Before the World Affairs Council of Philadelphia," (February 29, 1984).

in the US. But its price, the interest rate, was high. To make profits given the steep hurdle set by high interest rates the owners of capital turned to leverage. If credit markets would let them. Credit was not available everywhere. The public "debt crisis" of the 1980s in Latin America and Africa groaned on, for instance, and high interest rates punished Europe's economies. But in the US, capital was abundant. The "discipline of the market" failed. US corporate debt surged, in tandem with household and public debt. Leveraged asset price appreciation, premised upon the *belief* that liquidity would always be present across financial markets, was the new game.

For this to occur institutional changes were necessary, and none were more important than what took place in US corporate governance. Shareholders revolted against the industrial managerial class, dethroning some, coopting others. The new gospel became "shareholder value." No law says US corporations must maximize immediate profit.[59] Most postwar industrial corporations, focused on long-term growth metrics, had not tried. With the shareholder value revolution of the 1980s however present company stock market price newly became the metric of American corporate success.

What enthroned "shareholder value" was a wave of sometimes hostile corporate "takeovers." The movement began in the late 1970s, when oil businessmen flush with cash from the oil shock saw that because of inflation the depressed stock price of many large, diversified publicly-traded corporations was below the book value of their physical assets. During his 1983 bid to takeover Gulf Oil Texas oilman T. Boone Pickens declared in the *Wall Street Journal*,

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[59] The only 1980s qualification to the postwar "business judgment rule" was the "Revlon doctrine," or that when selling corporations boards of have fiduciary duties to sell to the highest bidder. See William T. Allen, "Engaging corporate boards: the limits of liability rules in modern corporate governance," in Cynthia A. Williams and Peer Zumbansen, eds., *The Embedded Firm: Corporate Governance, Labor, and Finance Capitalism* (New York: Cambridge University Press, 2011), 98.

"We are dedicated to the goal of enhancing shareholder value."[60] That was one of the earliest uses of the phrase. Boone tried to convince the majority of Gulf Oil shareholders to convey the corporation into Pickens's "royalty trust." He would sell off assets unrelated to the oil business, before the company was offered back to the public. Pickens never acquired Gulf Oil. But management paid him "greenmail," buying back his shares at above the market price, to stave off his takeover threat. Boone, Houston oilman Oscar Wyatt, Jr., and New Yorker Carl Ichan, among other corporate "raiders," followed this strategy successfully. Ichan even "greenmailed" US Steel.[61]

Corporate raiders could never have pulled off the shareholder revolution by themselves. They needed help in the capital markets. Post-Volcker inflows of global capital created generally favorable conditions. But raiders were joined by institutional investors, especially public and private pension funds. In 1975, pension funds owned $113 billion of stocks, in 1980 they owned $220 million, and by 1985 they owned $440 million. Pension funds invested in equities in part because they believed they could hedge the risk through new financial products.[62] Pension funds bought "portfolio insurance," for instance, in which computers automatically sold off stocks from their portfolios if stock prices declined. The academic theory behind portfolio insurance assumed liquidity, "that continuous trading was possible" – that there would always be two sides for a trade and not everybody would ever all be a seller. Further, in 1982 the Chicago Mercantile Exchange began selling stock index futures contracts, tracking the price of the

[60] Johan Heilbron, Jochem Verheul, and Sander Quak, "The Origins and Early Diffusion of 'Shareholder Value' in the United States," *Theory and Society* 43, no. 1 (January 2014): 12.
[61] Rita Kosnik, "Greenmail: A Study of Board Performance in Corporate Governance," *Administrative Science Quarterly* 32 (June 1, 1987): 163-185.
[62] In 1979, The Department of Labor, interpreting the Employment Retirement Income Security Act (ERISA) of 1974, applied the "Prudent Man Rule" to pension's investment portfolios, making greater equity investments possible.

Standard & Poor 500 – the "spooze." State and federal regulators approving approved institutional investors buying them to hedge their stock positions and thus relieve capital reserve requirements.[63] Meanwhile, when in 1984 Texaco paid $55 million of "greenmail" to the Texas Bass family, at $55 a share when the market price was $35, trustees of the California Public Employees' Retirement System (Calpers), the largest US public pension fund and one of the largest shareholders of Texaco, wondered why Calpers got nothing. Calpers led the Council of Institutional Investors (1985), and joined the rising chorus demanding "shareholder value."[64]

In 1982, Reagan's Justice Department announced its approval of leveraged buyouts and associated mergers. Government antitrust suits declined.[65] In the 1980s there were thousands of leveraged buyouts, valued in excess of $250 billion. The art of the "leveraged buyout" was this. Raiders and also new "private equity firms," the largest at the time, Kohlberg, Kravis, and Roberts (KKR, founded in 1976), bought a portion of the target companies shares, usually between 5 and 10 percent.[66] Perhaps management would offer greenmail. If not, more shareholders, namely the large institutional investors, had to be willing to sell to the acquiring interest. Management could participate. Often, business consultants encouraged them.[67] A company was far more likely to engage in a buyout transaction when executives from the finance

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[63] Henriques, *A First-Class Catastrophe*, 173, 202, 102-120.
[64] Heilbron, Verheul, and Quak, "The Origins and Early Diffusion of 'Shareholder Value' in the United States," 13-17; Frank Dobbin and Jiwook Jung, "Finance and Institutional Investors," in Karin Knorr Cetina and Alex Preda, eds., *The Oxford Handbook of the Sociology of Finance* (New York: Oxford University Press, 2014), 52-74.
[65] Neil Fligstein, *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies* (Princeton: Princeton University Press, 2001), 156.
[66] George Anders, *Merchants of Debt: KKR and the Mortgaging of American Business* (New York, NY: Basic Books, 1992).
[67] Frank Dobbin and Dirk Zorn, "Corporate Malfeasance and the Myth of Shareholder Value," in Diane E Davis, ed., *Political Power and Social Theory* (Bingley, UK: Emerald Group, 2005): 179-198.

rather than production or sales side of the firm were in leadership.[68] If managers resisted the buyout would be "hostile." To raise cash for the purchase of the shares buyers secured credit lines from banks, or issued junk bonds. This was the final ingredient – a newly liquid capital market for issues and secondary trading of high-yield, high-risk corporate "junk bonds." Investment bankers, above all Michael Milken of Drexel Burnham Lambert, made this market.[69]

Publically traded companies thus became privately owned. But the company then had to raise cash to meet the debt payments. That normally meant selling assets, or cutting labor costs. What a spectacle – employee pension funds seeking yields to compensate for their employees' flat compensation growth by participating in leveraged buyouts that led indebted private owners corporations to slash their wages. Conglomerates were commonly broken into parts, with many divisions sold off. It was a vertical and horizontal *disintegration* of the postwar multidivisional industrial corporation. Afterwards, the corporation was sold back to public capital markets, hoping that the appreciation of the share price exceeded the original purchase price. If the stock prices kept going up, generally it was.

The last great LBO of the decade was KKR's 1989 $31.1 billion takeover of RJR Nabisco. The CEO of RJR Nabisco was Ross Johnson, an instinctive critic of white-collar bureaucracy. His managerial style belonged to the college frat house. Managerial industrial capitalism was *boring*. So, Johnson put his own company "in play," a telling term for putting together a group to buyout the corporation he managed. The ensuing saga was immortalized in the business journalists Bryan Burrough and John Helyar's *Barbarians at the Gate: The Fall of RJR Nabisco* (1989), which launched a new genre, the gripping and eventful business narrative

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[68] Fligstein, *The Architecture of Markets*, 167.
[69] Robert A. Taggart, Jr. "The Growth of the "Junk" Bond Market and Its Role in Financing Takeovers," in Alan J. Auerbach, ed., *Mergers and Acquisitions* (Chicago: University of Chicago Press, 1988), 5-24.

in which everything seemed to be happening even when nothing happened.[70] But *Barbarians at the Gate* could not have been written about postwar managerialism, as the commissioning of efficiency studies does not make for a page turning read. In one telling scene in *Barbarians at the Gate*, Chicago investment banker Jeffrey Beck, the "Mad Dog," loses out to a higher bid for the Midwest conglomerate Esmark Corporation. But the LBO was his idea. That entitled him to a fee. As a joke the managers on the deal told Mad Dog he would not get one. Beck opened a window from a Chicago skyscraper and shouted, "That's it! I'm going to jump out the window! I'm going to kill myself!" Beck ended up with a $7.5 million fee. Johnson lost out to KKR in the bid for RJR Nabisco, but he still took home $53 million. With such giant corporations in play, and so few individuals wheeling and dealing, there were enormous sums at stake.[71] It is hard to argue that Johnson was a better manager because of his education and talent – his "human capital." He was in the right place at the right time, with the right job title and in the right social network.[72]

Probably, the fate of RJR Nabisco was sealed when CEO Johnson decamped from corporate headquarters in Atlanta to live, work and play in New York City, which had suddenly reversed its postindustrial fortunes. In the 1980s, Wall Street quickly became an object of cultural fascination, a symbol of post-industrial energy and opportunity. Among films Oliver Stone's *Wall Street* (1987) – about the fictional corporate raider Gordon Gekko, a combination of real life raider Asher Edelman and the stock market speculator on buyouts Ivan Boesky, author of *Merger Mania* (1985), who told the graduating class of the UC-Berkeley business

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[70] Bryan Burrough and John Helyar, *Barbarians at the Gate : The Fall of RJR Nabisco* (1989; New York : HarperBusiness Essentials, 2009).
[71] Burrough and John Helyar, *Barbarians at the Gate*, 87.
[72] Wage dispersion among workers with the same education, for instance, explained more of the variance in labor income inequality than education levels. Franzini and Pianta, *Explaining Inequality*, 36

school that "I think greed is healthy" – stands out.[73] "Greed is good," Gekko said. Stone wanted *Wall Street* to be a critique, but Gekko was too likeable. The film captured the obvious eroticism of much of the financial dealing. The last time the traffic in women and the traffic in stocks was so explicitly linked in film was the 1920s. In *Wall Street*, Gecko passes along stock trading tips and his girlfriend to his protégé Bud Fox. A worthy complement to *Wall Street* in the novel category was Bret Easton Ellis's *American Psycho* (1991), a satire about an investment banker misogynist serial killer.[74] For, there was something deeply anti-social about much of this financial activity. What did it create besides the enrichment of a narrow group of people on one patch of the earth?

In any event, by the mid-1980s a new "common sense" of what a corporation was took shape.[75] Two Chicago-trained University of Rochester business school professors, Michael Jensen and William Meckling, had published in 1976 what was to be one of the most widely cited of all academic economic papers, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure."[76] A firm was a spot market, a "nexus of contracts," with the most important contract between a principal (the equity owner) and his agent (the manager). The manager's job was to maximize "shareholder value." *Now*. The standard postwar managerial profit target was 20 years. By the mid 1980s, the industry standard for a successful leveraged buyout "payback" was two years.[77] In Jensen's model, liquidity – that owners could seamlessly

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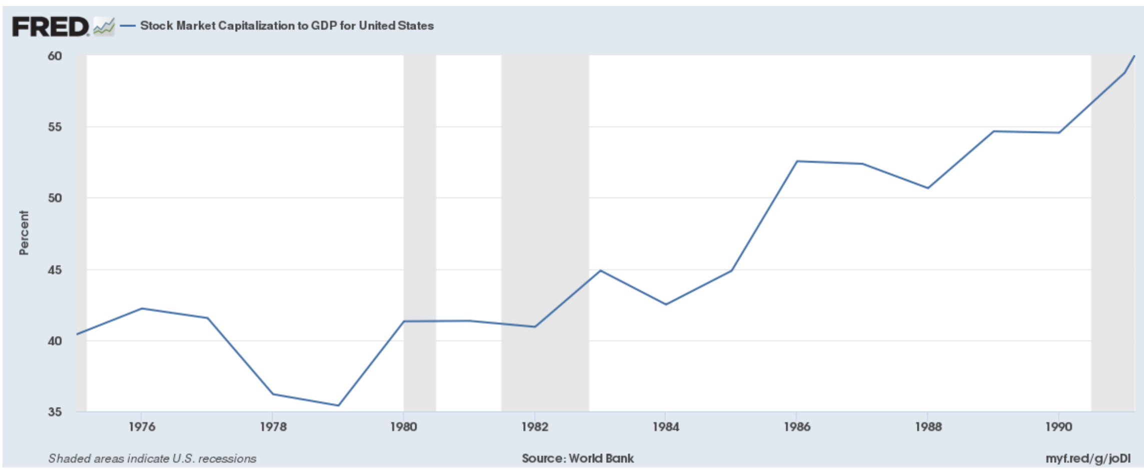
[73] Jeffrey G. Madrick, *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present* (New York: Vintage Books, 2012), 89.
[74] Bret Easton Ellis, *American Psycho* (New York: Vintage, 1991).
[75] Marion Fourcade and Rakesh Khurana, "The Social Trajectory of a Finance Professor and the Common Sense of Capital," *History of Political Economy* 49, no. 2 (June 2017): 347–81.
[76] Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3, no. 4 (October 1976): 305–60.
[77] Krippner, *Capitalizing on Crisis*, 56.

pull their capital out of one firm and into another – was assumed, in yet another academic exercise in financial economics that when put into use nudged practice closer to its assumptions (if never all the way).[78] Jensen left Rochester for the Harvard Business School in 1985, cheering on the shareholder value revolution, as this "agency theory" of corporations began to seep into business schools, consultancy recommendations, and even popular consciousness.[79]

As for shareholder value, buoyed by debt and computer automation, NYSE trading volumes exploded and US stock market prices soared.



Stock market capitalization climbed, even though the corporate profit rate – actual business earnings – remained below the bear market 1970s.[80] Buying their shareholder loyalty, increasingly corporate boards tied managerial compensation to stock options. Managers in turn began to "buy back" company shares, to keep the stock price up.[81] Discussions of "fundamentals" still mattered in valuation.[82] But asset prices, throwing off capital gains, might

[78] Donald Mackenzie, *An Engine, Not a Camera: How Financial Models Shape Markets* (Cambridge, Mass: The MIT Press, 2006).
[79] Michael C. Jensen, "Takeovers: Their Causes and Consequences," *The Journal of Economic Perspectives* 2, no. 1 (1988): 21–48.
[80] Wolff, *A Century of Wealth in America*, Figure 1.11, 27.
[81] Lazonick and O'Sullivan, "Maximizing Shareholder Value."
[82] Lawrence H. Summers, "Does the Stock Market Rationally Reflect Fundamental Values?," *The Journal of Finance* 41, no. 3 (July 1986): 591–601.

delink from what was supposed to be their anchor in the "underlying" business profits of firms, made from production and sales.

But then why did the "underlying" business profit have to be foundational? Profits from the FIRE sector (finance, insurance, and real estate) surpassed manufacturing in the early 1980s. For *manufacturing firms*, in 1978 portfolio income (from interest accrual, dividends, and realized capital gains) was 18 percent of total profits. By 1990, it was 60 percent.[83] This was the question that a century ago at the beginning, not the end, of the industrial epoch the railroad financier / manager Jay Gould had once posed. Why bother parting with liquidity, investing in enterprise, employing labor, making a product, and selling it at a profit above cost when one could lean back, and profit from buying and selling financial securities in markets fueled by debt (if not threaten to jump out of a window for fees)? At least, what was thought to be reality and representation in the economy by 1980 were scrambling, and the latter was perhaps getting out ahead of the former.

The blurring of appearance/reality was a preoccupation of 1980s cultural "postmodernism."[84] Consider one postmodern literary genre – "mark-to-market" accounting.[85] Postwar managerialism's "historical cost" accounting computed profit in relation to the past use of physical capital. In mark-to-market, the present market value of assets, foretelling future income streams, is what matters. "Return on equity" replaces "Return on investment." The past is wiped out; it does not lead to the future. Instead, the future determines asset markets' present, updated by the millisecond (in novels from this period narrative time often too ran in reverse).

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83 Krippner, *Capitalizing on Crisis*, Figure 3, 33, Figure 5, 36.
84 Fredric Jameson, "Postmodernism, or The Cultural Logic of Late Capitalism," *New Left Review*, I, no. 146 (1984): 53–92.
85 Jonathan Levy, "Accounting for Profit and the History of Capital," *Critical Historical Studies* 1, no. 2 (2014): 171–214.

That was what Chicago-school economists' "efficient markets" hypothesis theorized.[86] In cultural expression, that was what the decade's neon color palette symbolized – the fleeting present moment.[87] In the sartorial style of 1980s corporate raiders, bright color meant the power red tie. Celebrity New York real estate developer Donald Trump self-caricaturized the look. Though, in style, the 1980s also saw the return of black (made popular by Madonna), just like during the 1880s, the color of mourning. First for the agrarian, now for the industrial past. First black Victorian stovepipe hats, now black Nike sneakers. Certainly, 1980s capital markets left corporate managerial industrialism dead in the dust.

5.

The new macroeconomic pattern – newly asset led – was capable of creating a sustained economic expansion and sponsoring promising new forms of economic life. After 1982 there was a long, genuine boom, if of a new kind. What did it look like away from Wall Street? Clearly, with respect to employment, the action was in the service sector. Towards the top end of the income distribution, between 1981 and 1987, two million new jobs were created in the "business services" subcategories of "sales representatives, securities and financial services," "investigators and adjusters, except insurance," and "managers properties and real estate." High labor incomes flowed from "business services" linked to asset price run-ups.[88] Towards the middle to low end – where the overwhelming bulk of the some 18 million new 1980s service

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[86] Mackenzie, *An Engine, Not a Camera*.

[87] Leatrice Eiseman and Keith Recker, *Pantone: The Twentieth Century in Color* (San Francisco: Chronicle Books, 2011), 152-171.

[88] Franzini and Pianta, *Explaining Inequality*, 26-7; William Lazonick, "Labor in the Twenty-First Century: The Top 0.1% and the Disappearing Middle Class," in Christian E. Weller, ed., *Inequality, Uncertainty, and Opportunity: The Varied and Growing Role of Finance in Labor Relations* (Ithaca: Cornell University Press, 2015), 143-192.

jobs were created – were less-skilled, lower paying jobs in such things as food preparation, retail work, education, and health services.[89] All of these jobs, regardless of their pay, were in low productivity regions of the economy, which was one reason why the low 1970s productivity trend did not budge.[90] In sum, the post-1982 expansion simply saw the extension of the previous Sunbelt pattern of economic development, which now began to nationalize. There was only one Wall Street. But the economy of a postindustrial city like Houston could spread everywhere.

That pattern of economic development was spatial, defined by suburban and ex-urban sprawl – strip malls, office parks, hotels, and hamburger stands. The built environment received new injections of capital. One opportunity to see how the new political economy of asset price appreciation interacted with economic life on the ground is the thriving 1980s commercial real estate market. The construction boom of the decade created 1.5 million jobs, mostly male, though focused on cities such as Dallas or Phoenix, not Pittsburgh or Cleveland. No different from the stock market, taking advantage of new sources of capital and credit, asset values in commercial real estate surged far beyond the so-called "fundamentals," or the construction and use of commercial buildings.[91]

This was another story of the unintended consequences of the Volcker shock in combination with the unforeseen results of Reagan's tax policy. Commercial real estate prices had bottomed out during the 1973-74 recession and had begun to recover during the late 1970s much because commercial rents – unlike other streams of income – could be adjusted for inflation. But for different reasons commercial real estate appreciated even more after the business recovery that began in 1982. In burgeoning Sunbelt cities there was a genuine need for

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[89] Emma Rothschild, "The Reagan Economic Legacy," (July 21, 1988).
[90] Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War* (Princeton: Princeton University Press, 2016), Figure 16-5, 547.
[91] David Geltner, "Commercial Real Estate and the 1990-1 Recession in the United States."

office space.   Further, despite high interest rates, funding abounded. When not buying US public debt Japanese capital, for instance, poured into Los Angeles real estate.[92] Fleeing the Latin American debt crisis induced by the Volcker shock Latin American capital funded commercial real estate construction in Houston.[93] In many cities, however, commercial real estate asset prices began to outstrip what the industry considered their "underlying" basis of evaluation – the rental income of the property. Entering the stage was Trump. Trump's business model was what the American economist Hyman Minsky called "Ponzi financing."[94] Trump borrowed funds from a "sprawling network of seventy-two banks," including Citibank, Chase, Bankers Trust, and also British, German, and Japanese banks.[95] He purchased and developed Manhattan real estate projects, later New Jersey casinos. However, Trump's cash flow from renting his properties was not sufficient to meet his debt payments. But so long as his real estate assets kept appreciating he could – magically – borrow against them, and raise fresh funds to meet his debts. "Truthful hyperbole" was what Trump branded this business model in his ghostwritten memoir *The Art of the Deal* (1987).[96] To aid the public appraisal of his buildings in the media Trump consciously cultivated a celebrity persona. This was the new political economy of asset price appreciation at its most extreme, but millions of US homeowners would go on to finance or re-finance their home mortgages precisely this way across the 2000s before, later, after the bust, many would vote Donald Trump president.

[92] Murphy, *The Weight of the Yen*, 258-262.
[93] Joe Feagin, *Free Enterprise City* (New Brunswick: Rutgers University Press, 1988).
[94] Kevin W. Capehart, "Hyman Minsky's Interpretation of Donald Trump," *Journal of Post Keynesian Economics* 38, no. 3 (October 3, 2015): 477–92.
[95] Michael Kranish and Marc Fisher, *Trump Revealed: An American Journey of Ambition, Ego, Money, and Power* (New York: Scribner, 2016), 193.
[96] Donald Trump and Tony Schwartz, *Trump: The Art of the Deal* (New York: Random House, 1987), 58.

Reagan's tax policy also contributed to the 1980s commercial real estate boom. The 1981 tax cut had created a new accelerated depreciation credit for structures – both factories (the intended target) but also commercial real estate. There was also "Safe-Harbor-Leasing," which meant companies could sell tax credits to one another (more liquidity). The paperwork meant more jobs in "business services" for the legal construction of "tax incentive syndications."[97] But even industrial corporations such as General Motors began to invest in office building construction, if only for the tax credit. Lawyers began to charter a host of new kinds of corporate and non-corporate subsidiaries and shell companies, whether "pass through," or S-Corporations (which do not pay a corporate income tax), or "real estate investment trusts," "limited liability companies," or "master limited partnerships."[98] Income shifted to these new partnerships and proprietorships, especially when the broadly supported 1986 tax reform bill nearly equalized rates of income taxation for corporate and personal rates.[99] Of course, the US state – unlike postwar developmentalist states and planning agencies – had long used the tax code as an *ersatz* industrial policy. But now the technique transmogrified into something of a parody of itself, as capital moved into leveraged commercial real estate – not industry – through mind-numbingly complex tax friendly intermediaries that created more and better paying jobs for tax lawyers in the rising "business services" class.[100]

Finally there was a new domestic source of capital in real estate. In 1982, the Garn-St. Germain Depository Institutions Act changed the financial regulation of "thrifts," or banks in the Savings and Loan industry. New Deal-era regulations had highly limited thrifts loan portfolios.

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[97] Steuerle, *The Tax Decade*, 40-60.

[98] Timothy Guinnane, Ron Harris, Naomi R. Lamoreaux, Jean-Laurent Rosenthal, "Putting the Corporation in Its Place," *Enterprise & Society* 8, no. 3 (2007): 687–729.

[99] Major, CHS.

[100] Robert McIntyre, *Money for Nothing: The Failure of Corporate Tax Incentives 1981-1984* (Washington, DC: Citizens for Tax Justice, 1986).

In real estate, thrifts were limited to local residential markets within 50 miles of their headquarters. But then inflation undermined the industry – in part because so many of the thrifts' assets were past home mortgage loans with low fixed interest rates, stuck on the books. The 1982 law let thrifts invest up to 40 percent of their assets in commercial real estate. It increased the federal insurance limit of deposits from $40,000 to $100,000. It allowed individuals to own thrifts. And it let them accept "brokers" deposits from the unregulated shadow banking sector. Money managers thus cobbled together $100,000 CDs, which they deposited with thrifts. There was government insurance, and so no risk.[101]

Thrifts' commercial real estate loans climbed from 7 percent of their total assets in 1982 to 20 percent by 1989.[102] Credit flowed, mostly, to the fringes and edges of expanding Sunbelt cities and suburbs. Think office parks in the states of California and Texas, where the industrial economy of growth over time was being replaced by the economy of asset appreciation across space. Many real estate developers chartered or acquired thrifts themselves. They might funnel federally insured brokers deposits through thrifts, into their own "pass through" real estate subsidiaries, to build. In this period, many commercial buildings earned the nickname "see through," because they had so few occupants. Deals were now possible like this. In Houston, Gene Phillips used a shell company called Southmark Corporation to buy a thrift, San Jacinto Savings and Loan. San Jacinto exchanged $246 million of commercial real estate mortgages back and forth with entities of the New York real estate developer and thrift owner Charles Keating. These were people who simply traded the same asset to themselves over and over again, each time booking profits by assigning a higher price. From these swaps, the two booked

[101] Kitty Calavita, Henry N. Pontell, Robert Tillman, *Big Money Crime: Fraud and Politics in the Savings and Loan Crisis*, Revised ed. edition (Berkeley: University of California Press, 1997), 9-16.
[102] Geltner, "Commercial Real Estate."

$12 million in mark-to-market accounting profits, which Keating used to fund leveraged purchases of leveraged buyout "junk bonds" from the investment bank Drexel Burnham Lambert.[103]

Aghast, one Florida state regulator noted that "money availability" had become "more of a reason for real estate development than economics," or the underlying flow of cash income generated by the property.[104] But this was economics, or at least one way to have an economy. Commercial real estate was not so much a "frothy" market riding the top of the economy. *Maybe, increasingly, this was simply it*. Capital rushes into an asset class. Appreciation throws off income and creates jobs – here for bankers, there for developers, lawyers, construction workers, and self-employed building inspectors, appraisers, assessors, accountants and fraudsters. Employment demand springs to life for a host of not always but often low-paying service jobs, as male wages flat line and more women enter the labor force. Does not someone have to cut the hair, be the therapist, cook the dinner, watch the kinds, tend to the elderly parents, or be the yoga instructor of the "business services" class?

It is important to say that capital did not rush *everywhere*. Capital flowed more across asset classes, as capital markets became more liquid, but could still marginalize and exclude. In real estate values northern black urban property prices plummeted – as they had ever since the late 1960s urban uprisings.[105] Black migration back to the South accelerated. But for many northern black people, increasingly trapped in jobless ghettos devalued by capital, and with unemployment and AFDC benefits declining, there was no choice but to be entrepreneurial in the

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103 Calavita, Pontell, Tillman, *Big Money Crime*, 26.
104 Ibid., 43.
105 William J. Collins and Robert A. Margo, "The Economic Aftermath of the 1960s Riots in American Cities: Evidence from Property Values," *The Journal of Economic History* 67, no. 4 (2007): 849–83.

spirit of the times. The informal economy, including criminal activity, expanded.[106] Even amidst declining drug use in 1982 Reagan declared a "War on Drugs."[107] Rates of black male incarceration, for drugs and nonviolent offenses, surged – across the 1980s an extra 20,000 black citizens were incarcerated every year. The US prison population climbed from nearly 500,000 to over 1 million in 1990. This happened in no other country. 1985 was the first year state spending on incarceration surpassed AFDC and food stamps, as well as diminishing public housing expenditures. So, while many boundaries may have blurred, here at least were some new walls – prisons walls. The owners of capital might investment in them. The first for profit prison since the 1920s was contracted in Tennessee in 1983. "Incarceration for profit concerned 1,345 inmates in 1985; ten years later, it covered 49,154 beds."[108] For public housing, the Reagan Administration offered tax credits to for profit developers who built a minimum number of "low income" units.[109] Both rates of incarceration and for profit public housing surged in the Sunbelt. For states like Texas, in addition to anti-state ideology, it was easy to privatize – with so much new development, "public" prisons, hospitals, and other service deliverers never existed to begin with. This was the new political economy and when public infrastructure crumbled in the North, it would replace it.

From the point of view of the worst off, economic life may begin to look bleak. Increasingly, incarceration was the solution to postindustrial "advanced marginality" of human

[106] William Julius Wilson, *When Work Disappears: The World of the New Urban Poor* (New York: Knopf, 1996).
[107] Michelle Alexander, *The New Jim Crow: Mass Incarceration in the Age of Colorblindness*, 1 edition (New York: The New Press, 2010), 49.
[108] Wacquant, *Punishing the Poor*, 61, 114, 117, 159, 160, 65.
[109] Levy, "Passing Through."

populations.[110] But the economy did offer new possibilities. It was not all bad. In Buffalo, New York – to return to the sight of the 1983 steel closures – the macroeconomic expansion did bring jobs. Dorris Mickinney was a black single mother and a former steelworker. She did not like that she had lost a high paying, secure unionized job. She found a new job in a New York state hospital working with geriatric patients. The pay and benefits were worse, but the activity was better. "I work with geriatric patients. And I do various crafts and arts…. O I love it, I love it. I can't tell you how happy I am to be doing it…. This is what I want to do for the rest of my life."[111] "Health and education" services added 3.5 million jobs during the post-1982 expansion, a nearly 40 percent increase. At first, the Reagan Administration had reduced the number of disability recipients and benefits, but by the mid-1980s levels were soaring again. Due to an aging population "transfer payments," from the top to the middle (not bottom) of the income distribution increased as a percentage of total incomes across the Reagan years.[112] Healthcare and also education became great growth industries and for the middle class the public welfare state and the private welfare economy expanded in unison. In many rustbelt cities, healthcare basically replaced industry.[113]

A new world of service work was taking shape. It was socially interactive, consisting of "affective," "emotional," and "care" labor.[114] These kinds of service labor were still marked

[110] Loïc J. D. Wacquant, *Urban Outcasts: A Comparative Sociology of Advanced Marginality* (Cambridge: Polity, 2008).
[111] Rogovin and Frisch, *Portraits in Steel*, 191.
[112] Keith Wailoo, *Pain: A Political History* (Baltimore: Johns Hopkins University Press, 2014), 98-130-.
[113] Gabriel Winant, "Crucible of Care: Economic Change and Inequality in Postwar Pittsburgh, 1955-1995," Yale Phd Dissertation (2018).
[114] Viviana A. Zelizer, *Economic Lives: How Culture Shapes the Economy* (Princeton: Princeton University Press, 2010), 275-287.

feminine.[115] Few laid off male steelworkers applied for jobs as home health care aids. Men were more likely to find jobs in "self-employment." They were often precarious jobs, with low benefits. Yet, one member of a study of former GM workers at the streamlined Linden, New Jersey plant reported in his new job that, "The relationship is better." He had hated his old factory boss. A new self-employed operator of a Laundromat noted, "It's so different now. People who come into to have their clothes are usually in a good mood, and if I'm in a good mood, too, things are rosy."[116] Because of their social content many of the new service jobs were appreciated, *valued* by people – much more so than alienating factory work. They were just, relative to old factory work, not appreciated very much in pecuniary terms by the new capitalism of asset price appreciation. A willingness to care for others did not count as appreciable "human capital." An accounting degree from a university did. Soon, economists developed a name for this – "skill biased technical change."[117]

Acknowledging the collapsed boundary between home and work, labor unions tried to root out rank exploitation in service labor markets. Home health care workers in New York, Chicago, and San Diego – overwhelmingly black women – fought to organize. For profit firms could now contract to provide Medicare-funded home health care services, so workers bargained with both states, nonprofits, and for profits.[118] The Service Employees International Union (SEIU), led by John Sweeney, supported such organizing efforts. The International Ladies' Garment Workers' Union created a childcare center in New York in 1983 and in 1988 won

[115] Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (Cambridge: Harvard University Press, 2009).
[116] Ruth Milkman, *Farewell to the Factory: Auto Workers in the Late Twentieth Century* (Berkeley: University of California Press, 1997), 3, 119.
[117] Goldin and Katz, *The Race Between Education and Technology*.
[118] Eileen Borris and Jennifer Klein, *Caring for America: Home Health Workers in the Shadow of the Welfare State* (New York: Oxford University Press, 2012).

parental leave for its 135,000 members. Still, organizing workers in precarious positions, employed by contractors, subcontracts and numerous "vendors," was not easy. From this moment onward however in the US women began to join unions at higher rates than men.[119]

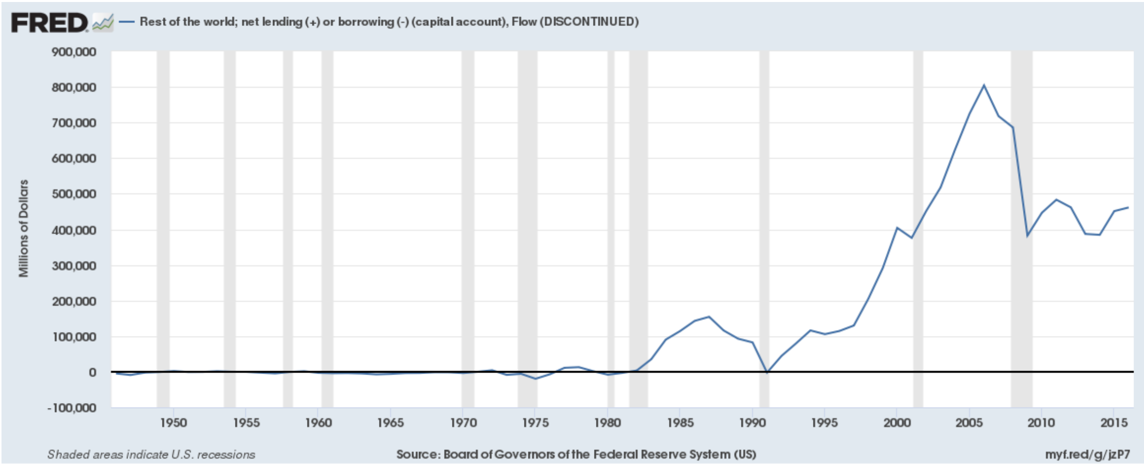
5.

In 1984, Reagan was reelected with 59 percent of the popular vote. It had been a remarkable number of years and a dizzying postindustrial economic transformation. Too dizzying? Even the Reagan Administration stopped to assess, walking back pro-market ideology a bit, before the credit cycle of this decade closed and the long macroeconomic expansion came to an end.

In 1985, the Reagan Administration decided the dollar was too high in global markets. Between 1980 and 1985 the dollar had climbed 44 percent against major currencies, punishing internationally vulnerable US manufactures. The Plaza Accord of 1985, struck at New York's Plaza Hotel, announced to the world the commitment of the US, Japan, West Germany, France, and the UK to intervene in foreign currency markets and to bring down the dollar. Between 1985 and 1987, the dollars' value declined by 40 percent, and, after a two-year lag, the US trade deficit began to narrow – from $152 billion 1987 to $30 billion 1991.[120] Thus aided, and benefiting from lower labor costs, US manufacturing profits recovered.[121] In the new US global economic hegemony launched by the Volcker Shock an interregnum opened, in which the flows of capital and goods reversed (Japanese savings now flooded into Japanese real estate and stock

[119] Ruth Milkman, *On Gender, Labor, and Inequality* (Urbana: University of Illinois Press, 2016), 184-204.
[120] Jeffrey Frankel, "The Plaza Accord, 30 Years Later," NBER Working Paper 21813 (December 2015).
[121] Brenner, *The Economics of Global Turbulence*, 206.

markets). This interregnum for the global economy would not end until the "Reverse Plaza Accord" of 1995, under Clinton, when the flows reversed, and amplified.



Why the Plaza Accord? Japanese and European finance ministers had not liked watching their country's savings flow abroad. Pressured by the export-sensitive wing of the US business lobby, the US Congress had begun to grumble about possible protectionist measures. But the symbol of white male manufacturing job loss played no small role. There must be something wrong in an economy where the number of female jobs in health services surged, while male manufacturing employment declined? The highest grossing film of 1985, for instance, was *Back to the Future*, bathed in nostalgia for the postwar period. Nowhere did the politics of nostalgia play a greater role than in farm policy. No different than third-world commodity producers many US farmers had gone into debt during the 1970s to expand production, only to be punished by the Volcker Shock. The "farm crisis" became a national story in 1984-5, when US farm debt reached $215 billion. It is also became a postindustrial media spectacle. The small family farm did not exist anymore. Reagan vetoed a Congressional bailout on free-market principles. Farm lobby Democrats rolled out celebrity actresses before their Committees as "expert witnesses." Jessica Lange, who starred in *Country* (1984) about an Iowa farm family foreclosure, pled with Congress not "to allow the last remnants of our heritage disappear." The best film about the

Iowa farm crisis had no politics, just this yearning for the past, which could only be brought back, truly, by magic – *Field of Dreams* (1989). In the late 1980s in culture even the avant-garde shifted from postmodern obsession with representation to the trauma of loss.[122] Regardless, in 1985 Reagan backed down and signed an expanded farm bill, which distributed 80 percent of its welfare to overwhelmingly white farm proprietors or corporations that earned more than $100,000 a year. No less mythical than the black welfare queen was the white yeoman Jefferson farmer.[123]

Something that had been repressed however was in fact returning. That was financial instability not seen since the Great Depression. On a single day of trading October 9, 1987 the NYSE's Dow Jones Industrial Average fell 22.6 percent, a historic drop. Unheard of levels of volatility began to appear in the NYSE in 1986. US capital markets were becoming, essentially, one big market, with more money rapidly rushing in and out across sectors. "Moves like this used to take ten days to make. Now they take ten minutes. You can't get a handle on it," said one capital market participant. When stock index derivatives – Chicago "spooze" contracts – soared, money managers sold them, and bought underlying stocks, driving up the NYSE. The reverse trade brought the price of stocks down. Would someone buy them, to bid them back up? Would there be sufficient market liquidity? Regulatory agencies saw no problem with the financial innovation. In 1985, a Treasury, Federal Reserve, SEC, and Commodity Futures Trading Commission report noted that new derivatives fulfilled "a useful economic purpose," since "firms and individuals less willing to bear [risks]" could trade them to firms and individuals willing to do so. The report noted the "rationality" and "efficiency" of financial

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[122] Hal Foster, *Bad New Days: Art, Criticism, Emergency* (London ; New York: Verso, 2015).
[123] Nicholas Foster, "'Green Corn Gleaming': Free Markets, Agrarian Myths, Agriculture, and American Political Economy in the 1980s," Masters Thesis, University of Chicago, 2017.

markets and concluded that derivatives "appeared to have no measurable negative implications for the formation of capital."[124]

In October 1987, institutional sell orders through portfolio insurance and stock index arbitrage trades leveled prices at the NYSE. At the bottom of the market there were no buyers. No one wants to try and catch a falling knife. Stock markets in Tokyo, Hong Kong, and London suffered routs. On Monday October 9, 1987 the NYSE lost 508 points. It was a massive flight to cash – the propensity to hoard, undermining the inducement to speculate, let alone invest. Liquidity in securities markets dried up. The next day trading all but halted in the Chicago and the New York pits. Traders wore "Don't Panic" buttons. The Fed, under the new chairmanship of Alan Greenspan, announced, "The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system." The confidence game ended with the NYSE clawing back value.[125]

It had been a massive, sudden crash, but it did not lead to an immediate economic recession. So long as confidence and *belief* in the presence of liquidity existed, that the Fed, if necessary, would make a market for an asset, the credit cycle could continue and so therefore could the business expansion. The post-1982 expansion, lasting until 1990, was the longest peacetime expansion on record since WWII.

By the time recession arrived, Reagan was no longer president. George H.W. oversaw the downturn of 1990-1. Greenspan's Fed, still wary of inflation, had raised short-term rates from under 3 to nearly 5 percent, pushing the credit cycle toward its end. Commercial real estate

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[124] "A Study of the Effects on the Economy of Trading in Futures Options," Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, and the Securities Exchange Commission (1984), I2.
[125] Henriques, *A First-Class Catastrophe*, 179, 239-240, 255.

was hard hit. Asset values dropped, and credit was dearer. Many of Trump's properties went bankrupt. There were limits to truthful hyperbole in asset valuation. Elsewhere in real estate, there was the fraudulent implosion of the Savings and Loan industry. Insolvent thrifts held at least $300 billion in assets, thousands actually failed, and the price tag of the 1989 federal government bailout was in the neighborhood of $150 million.[126] The credit boom had enabled much criminality in the financial sector, and some of it – unlike in credit cycles to come – was even prosecuted. In 1990, the junk bond investment banker Michael Milken was sentenced to 10 years in jail for insider trading. The junk bond market tanked. The leveraged buyout of corporations halted. At the same time, with investment declining as a share of GDP, the post-1982 macroexpansion was not only asset but also consumption led. So another cause of the recession was that US households had decreased their consumption, seemingly to deleverage the prodigious debts they had incurred across the decade in order to compensate for flat pay growth.[127]

6.

To step back and assess the economic changes of the decade. During the 1970s crisis of industrial capitalism most every single national economy had experienced malaise of some kind or another. Many states, fumbling for answers, turned to the capital markets to at minimum buy time. The Volcker shock suddenly increased the cost of new funds, and brought pain. Many Latin American and African economies descended into public debt crisis and lost decades. Communist countries, West Germany and Poland especially, had also gone to the capital markets

[126] Calavita, Pontell, Tillman, *Big Money Crime*, 147.
[127] Ben Bernanke and Cara S. Lown, "The Credit Crunch," *Brookings Papers on Economic Activity* 22, no. 2 (1991): 205–48; Olivier Blanchard, "Consumption and the Recession of 1990-1991," *The American Economic Review* 83, no. 2 (1993): 270–74.

to borrow their way out of the industrial doldrums, doubling down on their investments in capital-goods industrialism. It did not work. Communism would perish.[128] Capitalism however would transform.

No doubt, Morning Again in America was a great leap forward into the postindustrial future. Because of its position as global hegemon the US uniquely benefited from private capital inflows while much of the world economically suffered across the 1980s. What a unique opportunity to capitalize and chart a postindustrial future! There is nothing wrong with imaging a better economic future and mobilizing credit towards that end. There were some promising developments. Comparatively, the US economy was distinguished for its prodigious job growth, albeit in the low paying service sector. For the first time since WWII, for instance, US unemployment rates would now consistently be below Western European levels. For better or worse there is nothing like a Houston, Texas in France (soon enough, China would have 20-30 cities of this type). If poorly remunerated, for their social content some people, especially women, valued many service jobs, more so than the old alienating factory work. Still, most of what the US economy did with the world's savings hardly deserves praise: unused office buildings; truthful hyperbole; an interstellar missile system to fight a collapsing Cold War enemy that did not function; a bloated financial sector of questionable social value. In terms of productivity growth, the 1980s was the worst decade on record since the Industrial Revolution.[129]

Political institutions had not controlled events, so much as unleashed the possibility of surprising and chaotic change. The new principle was the liquidity of always convertible and

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[128] Stephen Kotkin, "The Kiss of Debt: The East Bloc Goes Borrowing," in Niall Ferguson ed. et. al., *The Shock of the Global: The 1970s in Perspective* (Cambridge: Harvard University Press, 2010), 80-96.
[129] Gordon, *The Rise and Fall of American Growth*, Figure 16-5, 547.

commitment-less capital. "I don't know what is going to happen with regard to the flight of capital," said Volcker in 1982. We "can speculate about everything." When American workers who lost their jobs in factories during the 1980s landed on their feet, finding new work in services or self-employment, they were often quick to qualify – "I got lucky," "I lucked up," "I lucked out."[130] "I guess there's good opportunity if you can get a good education," said former steelworker Benjamin Boofer, who now was self-employed and cut firewood. "But it looks a little bit to me that everybody is going to have to be smart and then the ones that get it are going to be lucky."[131]

The real time experience of indeterminacy began to couple, in hindsight, with durable outcomes. In addition to job growth, by far the greatest achievement of the 1980s US economy was the narrowing in pay gaps between men and women.[132] The continued entry of women into the labor force softened the rise in household income inequality during this decade. But it did increase, and it would not stop, accelerating through the millennium.[133] After 1984, the tightening of labor markets during the macro expansion halted the rise in pay inequality.[134] But the post-1982 macro expansion featured the greatest sudden run up in wealth inequality, *in all of US history*. The lever was asset price appreciation, or capital gains, which accounted for an estimated 80 percent of the new distribution.[135]

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[130] Milkman, *Farewell to the Factory*, 121, 130, 197.
[131] Rogovin and Frisch, *Portraits in Steel*, 97.
[132] Claudia Goldin, "A Grand Gender Convergence: Its Last Chapter," *American Economic Review* 104, no. 4 (2014): 1091–1119.
[133] Peter H. Lindert and Jeffrey G. Williamson, *Unequal Gains: American Growth and Inequality since 1700* (Princeton: Princeton University Press, 2016), 219-241; Thomas Piketty, *Capital in the Twenty First Century*, trans. Arthur Goldhammer (Cambridge: Harvard University Press, 2014).
[134] Galbraith, *Inequality and Instability*, 124.
[135] Wolff, *A Century of Wealth in America*, 661.

The economy that resulted from the Volcker shock and the Reagan presidency may not have been the conscious result of deliberate policy choices, or even caused, in the first instance, by self-conscious private economic interests. But, soon enough, the owners of capital figured out the new rules of the game – and began to plunder.