Third Wave Capitalism

How Money, Power, and the Pursuit of Self-Interest Have Imperiled the American Dream

John Ehrenreich

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Introduction

I remember myself as a child growing up in the fifties, thinking, "How lucky I am to be an American." How sad it would be to come from somewhere else, I thought, to be French or Italian, perhaps. Wouldn't everyone, if they could, choose to be American? By the late eighties, three decades later, David Remnick, then a writer for the *Washington Post*, complained that the United States had become "second-rate in business, culture, even sports," and today this lament is echoed from left to right. America is "in warp speed decline," writes C. J. Werleman for the liberal activist news service Alternet. "America is in trouble," writes centrist *New York Times* columnist Thomas Freidman. "America is disintegrating," writes conservative political commentator and former presidential hopeful Pat Buchanan. Hector Barreto, former chief of the U.S. Small Business Administration and chair of the Latino Coalition, asks, "Are we the land of the American Dream, or the American Decline?"[1]

The repeated concern that the United States is in decline is odd. In many ways the America of today is a far, far better country than that of the

fifties and sixties, a period frequently idealized as the high-water mark of U.S. prosperity and power. Living standards have risen. Life expectancy is up, and infant mortality are rates down. The air and water are cleaner. Crime rates are down. High school has become universal, and college is more accessible. Expression of sexuality is freer. Transportation is cheaper, safer, easier, and more efficient. Information is more available. Health care is more effective and finally—maybe—about to become more universally available. The danger of the United States engaging in nuclear war (at least all-out nuclear war between states) is lower. For huge groups of once marginalized people—women, African Americans, Latinos, other people of color, gay and bisexual men and women, transsexuals—the United States provides far greater freedom, far more opportunity, and far greater safety than it did a generation or two ago.

Given the gains in American society, the pervasive belief in decline and the pessimism infecting both pundits and the wider public calls out for explanation. Dating back a quarter of a century or more, it can't be dismissed as nothing more than the result of the sluggish recovery from the Great Recession of 2008, the political gridlock of the Obama years, and the anxieties bred by the threats of terrorism, Ebola, and climate change. The national malaise reflects longer-term discontents and perhaps a distant, often-distorted memory of post–World War II America and a dim sense of the paths not taken. Though "decline" may be the wrong word, *something* has changed in the United States, and that something has produced a sense of looming crisis.

James Truslow Adams, who coined the phrase "the American Dream" in his 1931 book *The Epic of America*, defined it as "not a dream of motor cars and high wages merely, but a dream of social order in which each man and each woman shall be able to attain to the fullest stature of which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position."[2] The American Dream was to live in a country characterized by freedom, based on the proposition that "all men are created equal," a country ruled by "government of the people, by the people, and for the people."

In the years after World War II, the American Dream seemed alive and thriving. Free at last from the Great Depression, Americans looked forward to steadily rising incomes and upward mobility. Advances in medicine, communications (television), transportation (jet planes), and energy

("the promise of the peaceful atom") promised ever-improving health and well-being. The United States had become the world center of both high culture (art, dance, music, literature) and mass culture (Hollywood movies, comic books, rock 'n' roll, and television). The country was certainly too large to be a community, but in cities and in small towns, despite ethnic, racial, and religious friction and hostility, a sense of community, shared values and purposes, and collectivity survived. In the wake of the New Deal, the belief that government could and should intervene to guarantee the common welfare was generally accepted.

In retrospect, it is easy to see the illusions and fantasies that underlay the American Dream. In the South, Jim Crow still ruled, and lynching was far from a thing of the past. In the North, rigid housing segregation, job discrimination, and hostility of whites towards blacks were the rule, not the exception. Throughout the land, a third of Americans lived in poverty. The "red scare" made neighbor suspicious of neighbor and suppressed dissent, and the threat of nuclear annihilation hung over all. A cult of conformity masked deep divisions in society. Still, imperfect though things might be, there was a widespread belief that the country's story was one of progress and the gradual expansion of democracy. The progressive social gains of the New Deal were a beginning, not an end. "Our marching song will come again," proclaimed leftist Earl Robinson's "Ballad for Americans," sung at the 1940 Republican National Convention, at the 1940 Communist Party National Convention, and by two hundred African American soldiers at a wartime concert in London. The song was recorded by both Paul Robeson and Bing Crosby. And the faith seemed justified. Only a few years later, the civil rights movement, the black liberation and community control movements, the Great Society and the War on Poverty, the New Left and the sixties counterculture, and the modern feminist, gay rights, and environmental movements transformed the country and its people.

Now, however, half a century later, despite easily documented gains in wealth and well-being, that world of faith in the American Dream seems long gone. Politics are gridlocked and impotent in the face of a faltering economy, climate change, and a dozen other problems. We have lurched, apparently rudderless, from the dot.com boom of the late nineties to the financial crisis of 2008 and the following recession, from the triumphal end of the Cold War to a disastrous preemptive war in Iraq and an apparently endless "war against terror." The country's public schools, once the

wonder of the world, seem to lag behind those of a dozen other, poorer countries. The American health-care system is the most expensive, least accessible, and one of the least effective in the industrialized world.

In 2015, the economy of the richest country in the history of the world seems to be unraveling. Long before the Great Recession, we were losing competitiveness to the Chinese and others, and today, years after the financial crisis, we are still unable to climb out of the financial pit dug for us by the banks. For decades, wages have stagnated, income and wealth inequality has grown, the poverty rate has remained stuck at mid-1970s levels, and the social safety net has deteriorated. Families have only been able to maintain their standard of living by working more (the dual-income family is now the norm) and by borrowing to stretch their income. The price, not surprisingly, has been increased pressure on individuals and on the family as a unit, with concomitant political tension.

While racial attitudes of whites may have softened, racial inequities persist at an institutional level, and individual racism and bigotry is still widespread. Poverty in America remains concentrated among people of color. The rate of incarceration of black men (mainly for nonviolent drug offenses) is five times that for white men, and, sixty years after *Brown vs. Board of Education*, well over a third of black students nationwide (and almost two-thirds of black students in New York and Illinois) attend a school with fewer than 10 percent white students.[3] Hundreds of thousands of "illegal immigrants," most of them people of color and many raised in the United States since childhood, are unceremoniously deported each year. Other issues, such as abortion, gay and transgender rights, and gun control, provoke bitter division along the familiar Red State and Blue State lines.

As for the government's role in providing for the common welfare, it has lost out to free market ideology and a belief in unbridled individualism. In the United States these days, freedom seems to be less about the absence of constraint than about freedom from obligations to one another. Social critics have documented a decades-long decline in the sense of community and decried the rampant greed, litigiousness, consumerism, and belligerent egoism of today. The very idea of the common well-being has all but disappeared from political discourse. U.S. citizens, even before 2008, seemed to be experiencing a loss of optimism with respect to the future and with respect to the country's collective ability to solve pressing problems.

So what happened? How did we go from "how lucky I am to be an American" to "the American Dream is in trouble"? What complex shifts in American society have led to the perception of irreversible decline despite the real gains for so many? What do they mean for families and personal lives, for the way we educate children, for the way we deal with sickness and health, for our chances of personal happiness? Is it possible for us to recapture that sense of community and hope that once bound us together? Or are political polarization and paralysis, growing inequality, ongoing racial disparities, popular alienation from government, virulent individualism, concern about what our schools are teaching, and inability to confront challenges such as climate change and globalization here to stay.

Some of the fears of decline may be transient, rooted in the depth and intransigence of the post-2008 recession, and some of the claims that the sky is falling may be motivated chiefly by ideological agendas. Yet to describe what has happened in recent decades as nothing more than "the inevitability of change" is insufficient. There is a *coherence* to the changes, distinguishing the United States of recent decades from that of my childhood. Beginning in the early 1970s, the American political economy underwent a major transformation. Just as the Industrial Capitalism of the nineteenth century gave way to the Corporate Capitalism of the first two-thirds of the twentieth century, in recent decades the latter has given way to a new phase—the era of "Third Wave Capitalism."

Conceptualizing the last five decades as the onset of a new phase in the history of American capitalism helps resolve and explain the apparent contradictions of recent history—the growth of poverty amid growing wealth, the apotheosis of individual freedom and the paralysis of democracy, the election of a black president and the incarceration of a million black men, the increase in educational attainment and the growing mismatch between student skills and the needs of the job market, and the increasingly sophisticated medical technology and the decline in health indicators compared to other affluent countries.[4]

Chapter 1 provides a deeper, more systematic look at the sources and essential characteristics of Third Wave Capitalism. Like Industrial Capitalism and Corporate Capitalism before it, Third Wave Capitalism is marked by distinctive forms of economic enterprise, new technologies, a dramatic expansion of markets, new modes for the accumulation of wealth, a

changed relationship between the public and private sectors, new patterns of social conflict, and shifts in ideology.

Subsequent chapters provide examples that flesh out these somewhat abstract conceptualizations. Chapters 2 and 3 look at the U.S. health-care system and educational system, respectively. The health-care system, which evolved into its current form over the years after World War II and especially since the 1960s, is a "mature" Third Wave system, fully revealing the characteristic features of Third Wave Capitalism. By contrast, the school system was forged during the eras of Industrial and Corporate Capitalism. The drive to reform it, based on the claim that our schools are failing, is a concerted effort to transform American schools into a Third Wave system that can generate profits for the private sector as efficiently as the health-care system does.

Chapters 3 and 4 turn to the impact of Third Wave Capitalism on various groups of U.S. citizens. Chapter 4 focuses on the collapse of sixties' efforts to "eliminate the paradox of poverty in the midst of plenty" and "close the springs of racial poison" (to use President Lyndon Johnson's phrases) and examines the persistence of poverty and racial disparities. The abandonment of the poor, the retreat from commitments to end racial discrimination and racial disparities, and the turn to the criminal justice system to exert social control reflect the most extreme version of Third Wave Capitalism's more general retreat from collective solutions to societal ills.

Chapter 5 looks at the fate of the privileged upper end of the American middle class. The liberal and creative professions (e.g., lawyers, teachers, writers) were once able to maintain a position of relative autonomy, largely outside the corporate framework. From their privileged positions, professionals could dream of a society ruled by reason. But in recent years, cuts in public spending and the rise in new technologies, offshoring, and direct ideological attack have undermined their position, and along with it, their dreams for America.

Chapter 6 explores the cultural and psychological impact of Third Wave Capitalism. It examines the rise in individual distress in recent years, expressed sometimes as depression, anxiety, and loneliness, sometimes as political rage. These join economic inequality and political gridlock as central components of our national malaise. The distress is rooted in changes in typical personality patterns, a response to the demands that Third Wave

Capitalism places on its citizens, and in the decline in social integration and economic and cultural stresses that Third Wave Capitalism has created.

The epilogue that follows is less a conclusion or set of proposals or plan for political action than exploration of the potential for progressive change—and of obstacles to it.

A few caveats: I have made no effort to make Third Wave Capitalism encyclopedic. Many important aspects of the American experience of recent decades will appear only incidentally. These include the changing status of women, the situation of economically disadvantaged ethnic groups such as Latinos, the national debates about reproductive rights and gay marriage and gender identity, the impact of massive immigration (documented and undocumented), and the threat of global warming.

I also focus on what has happened within the United States and do not address the country's decline in power relative to the rest of the world. I have treated world events such as the Vietnam War and the "war on terror" as external, making no effort to explore the reciprocal interaction between what happens here and what happens elsewhere. The two are not independent, of course. The decline of U.S. power on a world scale, the confusion of purpose, the lack of moral compass leading to our war of aggression in Iraq and to waterboarding and "external rendition" certainly contribute to the national malaise.

I also do not examine the development of capitalism in other countries. Many of the changes in the United States in recent decades can be seen in other "advanced" democracies as well, but I have not attempted to address the similarities and differences between what has happened here and elsewhere. While history may be shaped by grand forces, its working out is full of particularities and the influences of very specific and local histories.

Others have analyzed many of the specific issues addressed in this book, of course, and I have relied judiciously on these secondary sources. My hope is that putting these analyses together in a new way will be illuminating.

Finally, the passage of time creates an inherent problem with any book about current affairs. Events inevitably outrun the production cycle of a book. Congress or the Supreme Court may yet cripple the Affordable Care Act. The Common Core Curriculum (or at least the testing regime associated with it) may implode under the pressure of the "opt out" movement.

The minimum wage may be increased. Revulsion at police killings of unarmed black people may lead to reform of policing tactics. But none of these developments would invalidate the insights into the dynamics of the health-care system, the politics of the school reform movement, or the state of the black community provided by my analysis of the dynamics of Third Wave Capitalism.

1

Third Wave Capitalism

Looking back on the decades since World War II from the vantage point of 2015, the gods would seem to have looked with favor upon America. Our economy has boomed. New technologies have transformed our lives. Our standard of living is much, much higher than it was. Americans are healthier and better educated than ever before. While inequalities and bigotry certainly remain, people of color, women, and gays and lesbians now know far greater freedom, opportunity, and security than in the years immediately following the war.

But if we look back more carefully, the view gets more complicated. From the end of World War II until the 1970s, despite turmoil and ups and downs, evidence of progress in the United States is clear. But somewhere in the 1970s or early 1980s the road turned sharply. In some areas, progress came to a dead halt. In other areas, we, the American people, took what now seems to be a wrong road. In a few areas, progress was even reversed.

Consider a few examples (all of which I will return to later, in more detail):

- From World War II until the early 1970s, Americans from all socioeconomic strata benefited from economic growth. But beginning in the seventies, productivity and incomes became uncoupled, and inequality grew. In the late 1970s, the richest .01 percent of Americans owned 7 percent of our aggregate wealth, a 30 percent *lower* proportion than thirty years earlier. Today they own 22 percent. In the late 1970s, the richest 1 percent took home 10 percent of aggregate wages; today they take home over 20 percent. Though productivity has increased by 120 percent since 1979, inflation-adjusted average hourly earnings for production and nonsupervisory workers (everyone but higher paid managers and supervisors) went up only 0.1 percent per year between 1979 and 2014.[1]
- By virtually any measure of health status, Americans are far healthier today than they were decades ago. Life expectancy is up, mortality rates are down, and effective treatments for many diseases, nonexistent fifty or sixty years ago, have become routine. But the price has been high. Health-care spending as a percent of GDP has risen 250 percent since 1970. Inability to pay medical bills accounts for more than half of all family bankruptcies. And by international standards, at least, what we get for the $2.9 trillion we pay each year for health care isn't very good. Americans experience more illnesses and have shorter lives than people in other high-income countries. In 1960, the country's infant mortality rate ranked twelfth among the thirty-four countries in the Organization for Economic Cooperation and Development (OECD), ahead of Japan, Canada, Germany, and France. Today the United States has fallen to thirtieth in infant mortality, behind Greece, Poland, and Slovakia. Most of the relative decline has occurred since 1980. Within the United States, huge disparities remain. A male black infant born today can expect to live four years less than his white counterpart, and for poor people with less than a high school education, mortality rates are actually rising.[2]
- Americans today are far better educated than years ago. The average number of years spent in school, the percentage of Americans of all social classes who are high school graduates, the percentage who are college graduates, and (despite what you may have heard) students' test scores are all up dramatically. Students from all over the world come to attend U.S. colleges and universities and even high schools. But most

of the reduction in the gaps in academic achievement between white and black and between white and Latino students occurred during the 1970s. The gap barely changed in the two decades following and has narrowed only slightly over the last fifteen years. The difference between the proportion of children of poor people and the proportion of children of rich people attending or completing college has doubled since the 1970s. And at least since "A Nation at Risk," the 1983 report of the Reagan administration's National Commission on Excellence in Education, we have been inundated with claims that our schools are failing, that students' skills are falling behind the rest of the world, and that U.S. students are not being prepared for the job market.[3]

- Jim Crow is no more, and the income, health, and educational statuses of African Americans today are dramatically better than in the 1950s. For most white Americans, open expressions of racism have become unacceptable. A large black middle class has emerged, and we have a black president and countless elected black officials at lower levels. But the gaps between black and white in schooling, unemployment rates, and income have barely narrowed since the mid-1970s. Since the 1980s, school segregation has been rising again, in both the North and the South. Today one quarter of all of black children in New Jersey attend super-segregated schools, with fewer than 1 percent nonblack children. A growing proportion of blacks live in predominately poor neighborhoods. And, beginning in 1980, the rate of incarceration of black men has risen dramatically. Today, the *New York Times* headlines, some 1.5 million black men are "missing" from their communities, either languishing in prison or prematurely dead.[4]
- Between 1960 and 1975, the proportion of Americans living in poverty dropped by more than half. By 1973, the poverty rate was down to 11 percent. But it then rose a bit, and it has never again reached its 1973 low point. Meanwhile, the proportion of the poor who are in "deep poverty"—who have incomes less than half the official poverty level—has steadily risen, from 30 percent in 1975 to 44 percent today.[5]
- Despite rising wealth, personal misery and a sense of personal isolation have increased. Rates of depression are up and levels of self-reported anxiety among young people have doubled since 1980. Meanwhile, sources of social support have declined. The number of Americans who say that they have no "confidant" rose two-and-one-half-fold between 1985 and 2004. Sociologists have documented a decline in social trust in recent decades, especially among the less educated. Despite increasingly shrill proclamations of religiosity, church attendance, once a source of solace for many, has dropped precipitously since the mid-1970s.[6]

- The first two-thirds of the twentieth century brought wave after wave of progressive reform—the Progressive Era of Teddy Roosevelt and Woodrow Wilson, FDR's New Deal, Truman's Fair Deal, and Johnson's Great Society. Regulation of banks and of the transportation, food, drug, and other industries, the development of the "social safety net," governmental guarantees of minimum wages and maximum hours and the right to unionize, unemployment compensation, workplace safety rules, anti-discrimination laws, and controls over air and water pollution made Americans safer, less exploited as workers and consumers, and more secure in the face of the vagaries of employment and the inevitability of old age. There were periods of backsliding, of course, but rarely for long. Looked at from a distance, progress was steady. But in the early 1970s, the reforms came to an abrupt halt and militant conservatism became increasingly triumphant. There was Republican Nixon's "southern strategy" with its withdrawal from aggressive enforcement of civil rights, Democrat Jimmy Carter's onslaught against transportation industry regulation, Republican Ronald Reagan's proclamation that "government is not the solution, government is the problem," Republican George H. W. Bush's deregulation of the energy industry, and Democrat Bill Clinton's embrace of deep cuts in welfare, bank deregulation, and harsh prison sentences for minor offenses. After Republican George W. Bush's effort to cut taxes for the rich, and in the face of ever-more-entrenched and ever-more-powerful conservative opposition, Barack Obama's claim of "yes we can" seems ever more hollow.

Many other examples could be given. In sphere after sphere of American life, the seventies and early eighties are an inflection point. Before, there was progressive change. After, there was not.

There are what seem to be exceptions, of course, most notably in the gains in the status of women. But looked at more closely, the course of modern feminism shows a similar pattern, peaking in the early 1970s, then falling back. State ratification of the 1972 Equal Rights Amendment had stalled out by 1977. The 1973 *Roe v. Wade* decision (disallowing most state and federal restrictions on abortion) was followed by a wave of increasingly successful efforts to chip away at women's reproductive rights. By the 1980s, the feminist movement had become increasingly fragmented, fraught with dissension, and imperiled by backlash. Even the gains in women's employment and income may have reflected the growing need

for families to have two wage earners, if they were to maintain their living standard in the face of stagnant wages, as much as support for women's rights.

So what's going on here? Let's step back for a moment. The change of course that is evident in U.S. history since the 1970s is not merely a superficial, retrospective grouping together of unrelated events. Inequality, political paralysis and the conservative onslaught, the crises in the American health care system and in American education, the collapse of efforts to end poverty and racial disparities, the rise in personal misery and political rage, all traceable to the 1970s and early 1980s, are not just a random collection of isolated problems. They represent the emergence of a new stage in the history of American capitalism.

Historians often divide American social, political, and economic history since the early nineteenth century into two phases, the age of Industrial Capitalism and the age of Corporate Capitalism. Each of these phases was characterized by the emergence of distinctive forms of economic enterprise, by novel technologies and radically new modes of transportation and communication, by expansion in the extent of the market, by changes in the modes through which wealth was accumulated, by shifts in the relationship between public and private sectors, by evolution of the typical forms of social conflict, and by distinctive ideologies. Since the 1970s, we have entered a third phase, the phase I call "Third Wave Capitalism." (For discussion of this terminology, see below).

The First Two Waves: Industrial Capitalism and Corporate Capitalism

The age of Industrial Capitalism—the era of the Erie Canal and the transcontinental railroad, of Morse's telegraph and McCormick's reaper and Edison's electric light bulb, of small entrepreneurs but also of hyper-rich "robber barons" such as Andrew Carnegie and John D. Rockefeller—extended through most of the nineteenth century. The steam engine and the factory system revolutionized production. Railroads, steamboats, and the telegraph and telephone revolutionized transportation and communications, widening markets. Great fortunes were made in railroads, mining, and basic industry. Though its role was minimal by

later standards, the federal government subsidized the railroads, indirectly subsidized manufacturing through the tariff system, and promoted the settlement of the West. Local and state governments helped maintain order, which included helping to break strikes and repress the recently freed black population in the post-Reconstruction South. This was a turbulent period in the United States, with social and economic conflict manifest in the Civil War, pitting region against region and manufacturers against plantation owners, in widespread strikes, pitting workers against their employers, and in regional political battles such as the Populist struggles, pitting southern and Plains State farmers against banks and railroads and their allies.

Then, around the end of the nineteenth century, Corporate Capitalism began to emerge. Giant joint stock companies and giant banks increasingly dominated the American economy. Technological advances in chemistry and electricity, the rise of the petroleum industry, and the development of the internal combustion engine—what some called "the second industrial revolution"—led to the emergence of the automobile industry, electrical utilities, and broadcasting. Soon the automobile and the truck and the radio permitted the development of a truly national marketplace. Rapid urbanization, wave upon wave of immigration from eastern and southern Europe, and the great northward migration of blacks from the rural South transformed the American workforce and the American landscape. "Scientific management" reorganized work processes, turning individual workers into little more than appendages of the machines they operated. In response to financial crises, labor unrest, and middle-class outrage over excesses of industrial capital such as those described in Upton Sinclair's *The Jungle*, both government and corporations were forced to accommodate to some degree to the needs of workers, farmers, and consumers. At the same time, corporate leaders began to see the state as a mechanism that could directly serve their needs. Progressive Era reforms such as railroad rate regulation, the Pure Food and Drug Act, and the Federal Reserve Act not only protected consumers and small businesses but also helped rationalize industries, stabilize the economy, and protect corporations against more radical demands from workers and farmers.[7]

The increasing scale of enterprises and the rise of a national market created the possibility of raising wages to permit higher consumption. In 1914, Henry Ford increased the wages he paid his workers to five dollars

a day, doubling their previous rate. In legend, at least, Ford realized that paying higher wages to his workers would make it possible for them to buy his products. It was actually probably more an effort to reduce worker turnover in his plants and was accompanied by vastly increased scrutiny of the workers' lives. But regardless of Ford's own intentions, the understanding that higher wages would, in the end, help corporations make profits, triumphed. Of course, the argument that higher wages lead to higher consumption really only works at the level of society as a whole, not at the level of a single company. No matter what Boeing pays its workers, they won't be able to themselves afford a 747. But if everyone pays their workers more, capitalists can benefit from higher sales. The Boeing workers may be able to afford to buy tickets from American Airlines to fly on a 747 and a Samsonite suitcase to carry their belongings from one city to another.[8]

Struggles between workers and owners persisted at the level of individual corporations, of course (as the great 1941 strike against Ford itself, among other labor battles, showed), but something new had been added. Now what happened to workers at a specific company was often inseparable from what happened to workers in general. Struggles for economic justice took on an intercompany or even national form. In earlier times, most strikes had been local, pitting workers against the owners of an individual company. The new model was reflected in the emergence of industry-wide strikes, such as the steel strike of 1919, the textile workers' strike of 1934, and the coal miners' strike of 1946, and even citywide strikes such as the San Francisco general strike of 1934. It can also be seen in the development of explicit or implicit industry-wide collective bargaining, as in the auto industry's adoption of "pattern" settlements after World War II: Once the union reached a contract with one of the Big Three auto companies, the other companies copied it.

Sometimes big strikes took on an anticapitalist, "class struggle" tone, but in the wake of the 1946 strike wave, a general social compact emerged. Unions would accept the underlying class relationships of society, agree to long-term contracts that protected employers from the threat of frequent strikes, and give up the right to bargain over some issues, in exchange for employment stability, a steady increase in real wages, and extensive health and pension benefits and vacation time (all underwritten, of course, by increases in productivity and monopoly control over pricing).

Unions, an insurgent force in earlier days, became a powerful institutional force throughout the United States, backed by federal laws protecting workers' right to organize and bargain collectively. By 1954, more than one in three wage and salary workers in the United States (and more than half of all manufacturing workers) belonged to a union. Unions provided the organizational underpinning for the post-FDR Democratic Party's electoral machine and served as what John Kenneth Galbraith, in his 1952 book *American Capitalism*, termed a "countervailing" force, capable of partially offsetting the enormous power of the giant corporation.[9]

Reflecting the newfound power of unions and the national integration of the economy, wages and working conditions became not just a matter of negotiation between an individual company and its workers but a matter for governmental action as well. Labor conditions were regulated by the New Deal's minimum wage and maximum hours laws, the workman's compensation system, and, later, by workplace health and safety laws. Progressive taxes (on corporations and on all citizens, including bankers, landlords, and factory owners) were paid out as a "social wage" to workers of all sorts, in the form of benefits such as unemployment compensation, Social Security, subsidized mortgages, and later Medicare, Medicaid, food stamps, and the Earned Income Tax Credit. The modern welfare state had emerged. In addition to providing greatly increased security for most Americans, these developments led to a dramatic redistribution of income. The share in national income of the top 1 percent fell from almost 24 percent in 1928 to less than 10 percent by 1970.[10]

At the same time, in the wake of the Great Depression, the federal government took on responsibility to manage the well-being of the country's economy as a whole. This responsibility became official U.S. policy with the passage of the Employment Act of 1946, which gave the federal government responsibility for maintaining full employment at fair rates of pay and low inflation. (The act did not prescribe specific policies.)[11]

The "national-ization" of the economy, corresponding to the development of a national market, became increasingly evident in other ways. FDR's National Industrial Recovery Act, intended to regulate wages, production, and prices, was declared unconstitutional by the Supreme Court, but similar, if smaller, efforts to provide a nationally uniform system appeared in oil production, coal mining, agriculture, trucking, and shipping. Under government sponsorship, the nation's uniform electrical grid was

completed, telephone service was made available even in rural areas, federal control over the airwaves was completed, and the interstate highway system was developed.

The Rise of Third Wave Capitalism

Since the 1970s, American capitalism has evolved into a distinctive third phase, Third Wave Capitalism. This third phase of American capitalism is marked off from the preceding Corporate Capitalist period by the dramatic growth of globalization. Capital markets were internationalized. Foreign trade and investment grew dramatically, and the new multinational corporations created globally integrated supply chains, uniting under the control of a single enterprise the extraction of raw materials, production of parts, assembly of final products, and sales, with each process occurring in a different geographic location. At home, U.S. manufacturing declined, its once proud place in the national economy taken over by service industries and the financial sector. Meanwhile giant nonprofit enterprises arose, coming to account for more than 10 percent of U.S. employment by the end of the twentieth century. Another wave of technological innovation, this time in electronics and materials, fueled another historic shift in production, communications, and transportation. Free market, highly individualistic ideologies flourished, promoted by a well-financed and self-conscious propaganda barrage from conservative business leaders and media. The relationship between government and business became ever more intimate, and, correspondingly, the protections that the federal, state, and local governments offered the poor and the middle class began to fray (see table 1).

A word about my use of the term "Third Wave Capitalism" to describe this phase in American history. Many others have explored changes in the United States over recent decades (though not always focusing on the same changes or on precisely the same time frame) and have sought a way to name them. Each of the other leading candidates is deeply problematic, however. "Global capitalism" implies that the economic world is far more integrated than the real world actually is and falsely suggests that developments in the United States are closely mirrored in other capitalist countries, including not only the countries of Western Europe but

TABLE 1. The phases of American capitalism

	Pre-Industrial	Industrial	Corporate	Third Wave
Dominant economic sectors	Agriculture	Manufacturing	Manufacturing; finance	Services (often organized as nonprofit); finance
Scope of market and production	Very Local	Local	National	International
Form of dominant economic enterprise	Family farm; artisanal workshop	Privately owned company	Joint-stock corporation	Multinational corporation; nonprofit organization
Technological frontier		Steam power; mechanization of manufacturing; steel	Electricity; electronic devices; chemicals; petrochemicals; motor vehicles and airplanes	Computers and information technology; biotechnology; ceramics and composites
Modal forms of communication	Newspaper	Newspaper, telegraph	Newspaper, telephone, radio and later, television	Television, Internet
Modal forms of transportation	Horse	Train, steamboat	Automobile, truck	Automobile, truck, airplane
Relationship of government and private sector	Mercantilism; colonial economy (pre-1776)	Direct and indirect subsidies (e.g., railroads, tariffs); maintenance of order	Regulation; provision of social wage and social safety net; macroeconomic intervention	Deregulation; welfare state as source of profits; blurred boundaries between government and private sector; outsourcing and privatization; macroeconomic intervention
Modal domestic social conflict	Anticolonial movement, slave resistance	Local strikes, Civil War, regional politics (e.g., Populism)	Industry-wide strikes; national politics	National politics; rent-seeking
Modal personality pattern		Inner-directed (internal goals)	Other-directed (interpersonal goals: getting along)	"Me-directed," narcissistic, anxious (external goals: money, status)

countries such as China, Russia, and Brazil.[12] "Finance capitalism" focuses on a very important shift in our economy, but financialization alone has little power to explain the many changes in U.S. politics, economics, and culture.[13] "Late capitalism," espoused by many in the humanities, is vague and leaves us with the problem of what we will call the inevitable next phase of capitalism ("later capitalism"?).[14] "Neoliberal capitalism," a favorite among many Left scholars to refer to the renewed popularity of laissez faire economic ideas, uses the word "liberal" in a sense completely opposite to historic American usage.[15] In Europe, "liberalism" implies small government and laissez faire economics, but in the United States the word is virtually synonymous with strong government and support for the welfare state. None of these terms will do. "Third Wave Capitalism" simply sets off the current phase of American capitalism from the two earlier phases, with no obvious downside.

In a deeper sense, the difficulty in coming up with a more precisely descriptive label is itself telling. The Industrial Revolution was the overwhelmingly dominant force in shaping the era of Industrial Capitalism, and the rise of the giant corporation was equally central to the era of Corporate Capitalism. But no one institution or process dominates the changes in of recent decades. If anything, in Third Wave Capitalism the boundaries between institutions and between processes—between business and government, money and politics, profit and nonprofit, race and class, war and peace, police and military, private and public, cultural practice and commodification, male and female—are increasingly blurry. The very vagueness of "Third Wave" turns out to be descriptive.

The Corporate Imperative

Where did the Third Wave come from? The most basic engine driving the transition to the new stage of American capitalism was the relentless search for corporate profits, at home and abroad. U.S. corporations have long sought foreign markets and invested in sources of raw materials. Foreign investment and international trade grew gradually until the 1990s, then explosively penetrated into the most remote corners of the world. Today, at the top of the heap, some sixty giant international corporations, including companies such as General Electric, Exxon, AT&T, Walmart, and Pfizer, account for $30 trillion in annual revenues and $119 trillion in assets, and they employ seventy-two million people worldwide.[16]

In their relentless search for profits, corporations moved into areas previously left to families or to the nonprofit sector. The most human of relationships, such as educating children and caring for the sick and the aged, were turned into commodities, whose availability and quality are subject to the vagaries of the market and the imperatives of profits. The interests of the market trumped all others. Young children were targeted by toy and breakfast food advertisements, pharmaceuticals were marketed to television viewers (even though their sale is controlled by physicians and pharmacies), and powerful corporate interests prevented or distorted reform in areas central to social well-being.

Within the corporation, restructuring of corporate reimbursement policies so that top management compensation became linked to the company's stock price resulted in the triumph of a short-term perspective: short-term profits (and as a result, higher stock prices) were generated, even at the expense of long-term planning and growth. Corporations became increasingly unwilling to make long-term investments in activities that did not guarantee rapid and large-scale payoffs, unless they were accompanied by massive government subsidies or guarantees (for example, guarantees for drug companies developing vaccines).

Corporate greed, of course, is nothing new, but well into the sixties, recalls *Washington Post* business columnist Steve Pearlstein, "Corporations were broadly viewed as owing something in return to the community that provided them with special legal protections and the economic ecosystem in which they could grow and thrive." The law does not actually require corporations to be run to maximize profits or share prices, points out Pearlstein, nor do the executives and directors have a special fiduciary duty to the shareholders (as opposed to the corporation itself). All the corporation contractually owes its shareholders is "a claim to the 'residual value' of the corporation, once all of its other obligations have been satisfied."[17]

In the past, CEOs did consider the needs of a variety of stakeholders, at least rhetorically. "The job of management," said Frank Abrams, chairman of Standard Oil of New Jersey, in 1951, "is to maintain an equitable and working balance among the claims of the various directly interested groups . . . stockholders, employees, customers, and the public at large." As late as 1981, the Business Roundtable, an organization of the CEOs of the country's biggest firms, proclaimed: "Corporations have a responsibility,

first of all to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy. . . . The long-term viability of the corporation depends upon its responsibility to the society of which it is a part."[18]

Beginning in the 1970s, however, American businesses shifted from this "stakeholder model" to a "shareholder model," in which the immediate interests of shareholders were practically all that mattered. By the late 1990s, the Business Roundtable had changed its tune. The principle objective of a business enterprise, it now said, "Is to generate economic returns to its owners . . . [If] the CEO and the directors are not focused on shareholder value, it may be less likely the corporation will realize that value." The shareholders had won. Or, as Gordon Gecko said in the movie *Wall Street*, "Greed is good."[19]

The long-term struggle between individual large corporations and their workers, clients, and smaller-scale competitors escalated, with the large corporations going on the offensive. In the face of a wave of labor unrest in the 1970s and growing competition from abroad, employers placed renewed emphasis on labor flexibility and on control over their workers. At home they shifted from long-term commitments to their employees to the use of temporary and part-time employees, freelancers, and other workers deemed "outside contractors." Ever larger parts of both production and administration were outsourced to other domestic or foreign companies. Advances in automation technology increasingly permitted replacement of potentially obstreperous workers with lower-cost, more docile machines. Companies also showed a growing resistance to the pay and benefit demands of unions, and a greater willingness to vigorously fight union organizing campaigns and strikes. In the marketplace, Walmart, Home Depot, and other huge national retail chains used the savings from their enormous scale of operations, along with aggressive use of loss leaders, to drive millions of small retailers out of business. Small mom-and-pop retail establishments providing day-to-day commodities such as food, clothing, hardware, and books were driven out. This, in turn, contributed to the collapse of smaller scale, "people-friendly" neighborhoods.[20]

The aggressiveness of large corporations was especially evident in banking and other financial institutions. Before the 1960s, banks were

staid, heavily regulated institutions, investing mainly in government bills and bonds and short-term loans. Most corporate investment came from funds generated internally by the corporations themselves. But then, with Citibank's CEO Walter Wriston leading the way, banks surged into retail banking and credit cards and into investing in equities and derivatives. As federal regulations were loosened, both consumer banks and investment firms began to invest heavily, often recklessly. The line between what in retrospect get called "reckless" sub-prime loans and "predatory" loans became harder and harder to see, and the banks' products—"derivatives" and other complex financial instruments—became less and less easy to understand. Today, four banking groups (JP Morgan Chase, Citigroup, Bank of America, and Wells Fargo) have assembled assets equal to 43 percent of the Gross Domestic Product of the United States, four times the relative amount they controlled twenty-five years ago.[21]

The Rise of Nonprofits

A second change in the organization of private enterprise, easily overlooked amid the rapid growth of multinational corporations, was the emergence of the giant nonprofit organization. There is nothing new about nonprofits, of course. What is new is their dramatic growth in numbers and in size. Today elementary and secondary schools, universities, hospitals, think tanks, social welfare organizations, charities, unions, trade associations, social clubs, fraternal societies, churches, foundations, and other types of organization categorized by the Internal Revenue Service as "not for profit" enterprises account for about 10 percent of U.S. employment, up tenfold since the early twentieth century and threefold or fourfold since 1960. By official estimates, nonprofit enterprises are responsible for 5.4 percent of the GDP, but this figure may significantly underestimate their impact, due to the way the statistics are gathered. Their annual revenues, $2.16 trillion in 2012, are the equivalent of more than 13 percent of the GDP.[22]

What defines an enterprise as being "nonprofit" is not the absence of profits in the usual sense of the word (that is, revenues in excess of expenses). A more accurate name would be "non-taxpaying organization." A nonprofit is defined by the U.S. tax code as an organization ostensibly organized for purposes other than making a profit and that has no shareholders to distribute profits to. In return for presumably serving some

socially beneficial purpose or providing charity or other forms of community service, the organization is exempted from most income, property, and sales taxes.

Despite their benign name and aura of doing good, nonprofits are simply a variant form of business enterprise, and they are thoroughly integrated into the for-profit business system. Some provide essential services to for-profit businesses. For example, the National Football League (NFL), the trade association for the $9-billion-a-year professional football business, was a nonprofit until it voluntarily relinquished its tax-exempt status under heavy political pressure in 2015. The NFL (as opposed to its individual franchises, which have never been nonprofit) had revenues of over $300 million in 2012. The U.S. Chamber of Commerce, another nonprofit, spent over $1 billion between 2004 and 2014 lobbying for business interests.[23] Other nonprofits serve as conduits for other companies to make profits. Nonprofit hospitals, for instance, provide an enormous market for the products of the pharmaceutical industry, and nonprofit charter schools provide a market for the products of testing companies such as Pearson. (I'll have more to say about this in chapters 2 and 3.)

Nonprofits are also central to the research endeavors of for-profit enterprises. The 1980 Bayh-Dole Act (the Patent and Trademark Act) permitted universities and hospitals to patent products or processes discovered by their researchers using federal tax dollars and license them to for-profit companies. For example, the anticancer drug Taxol was developed by Florida State University (FSU) scientists with almost half a billion dollars in federal grants. FSU licensed it to drug maker Bristol Myers Squibb, which, after more research and testing, marketed it, accounting for almost $10 billion in wholesale revenue for the company. Other highly profitable drugs, including the anti-HIV drug Truvada (developed at Tufts and marketed by Gilead), the anti-allergy drug Allegra (developed at Georgetown and marketed at Sanofi), and the anti-wrinkle drug Renova (developed at the University of Pennsylvania and marketed by Johnson and Johnson), have similar histories. A former president of the technology-heavy NASDAQ Stock Exchange estimated that no less than 30 percent of its value stems from university-based, federally funded research results, commercialized due to the Bayh-Dole Act.[24]

In all of these cases, nonprofits serve a legitimate role (though whether one deserving of tax exemption is debatable), but other nonprofit activities

are less defensible. For example, a nonprofit may make purchases from companies linked to their board members. One 2007 study found that administrators and directors were involved in insider arrangements at nearly half of large nonprofit organizations, including universities. Fraud and embezzlement associated with nonprofits is also common, totaling more than $40 billion a year from charities alone.[25]

Though they may not pay profits to shareholders, nonprofits may legally use their income to pay their executives very well. In 2012, Cleveland Clinic paid its CEO, Delos Cosgrove, $3.17 million; Goodwill Industries paid CEO John L. Miller $3.21 million a year, Northeastern University paid its president Joseph Aoun $3.12 million; and the National Football League (while it was still claiming its tax-exempt status) paid its commissioner Roger Goodell no less than $44 million. The pay of nonprofit CEOs, including bonuses, like that of their counterparts in for-profit companies, may be linked to their institution's financial performance, with higher pay contingent upon the organization's financial success.[26]

As if to emphasize the lack of any large difference between nonprofits and profit-making enterprises, nonprofits sometimes even decide that the business benefits of not having to pay taxes are not great enough to forego openly making profits for shareholders, and they seamlessly shift to become for-profit endeavors. In the 1990s, for example, the nonprofit Blue Cross and Blue Shield insurance plans were transformed into very profitable for-profit companies, shedding their former obligations to the community (which had included providing insurance coverage regardless of a customer's health status and charging the same premiums to all consumers). Anthem, the second-largest health insurer in the United States and the thirty-eight largest company altogether, with 2013 revenues of $71 billion and profits of $2.5 billion, is the most prominent member of this group.[27]

The Role of Technology

The shift to Third Wave Capitalism was also driven by the emergence of new technologies. Often these were the result of federal government investment, later adopted by and benefiting the private sector. Computers, originally developed in the 1940s as part of the war effort, were first adopted by big companies in the 1960s to control automated industrial

processes and to maintain business records, and they have since become ubiquitous. Container ships revolutionized the movement of goods. Cheap air transport (also the product of military development) moved passengers and goods rapidly. Communications satellites and the Internet (both developed by the federal government) made rapid long-distance communication cheap and reliable.

New technology transformed the way U.S. companies operated. Many routine jobs were eliminated, taken over by machines, and many new kinds of relatively skilled jobs were created. The transportation revolution made globally integrated production systems, export of production jobs abroad, and expansion of world trade possible and profitable.[28] The communications revolution permitted outsourcing of many backroom operations—from routine clerical tasks to accounting, design, and legal services—and enabled coordination of increasingly global enterprises. By century's end, home computers and the Internet, and then laptops, smart phones, and tablets, profoundly influenced popular culture as well as business practices, undermining traditional senses of privacy and altering patterns of interpersonal interaction.

Some have argued that technological advances themselves have driven economic growth in recent years and that recent technological change has transformed society in an unprecedented way. Some perspective is in order, however. Though recent technological developments have certainly had major economic, social, and cultural impacts, their uniqueness can be easily overestimated. With the possible exception of the computer, most technological changes of the last half-century had counterparts in earlier phases of capitalism. Ever since the beginnings of the Industrial Revolution in the first half of the nineteenth century, transportation and communication have become ever more efficient, ever faster, and ever cheaper. In comparison to what went before, industrial capitalism's railroads, steamships, and telegraph brought different parts of the world into contact with one another even more dramatically than has the Internet. Corporate capitalism's tractors, insecticides, and fertilizers revolutionized agriculture around the world, leading to massive immigration, rural depopulation in the United States, and the continued rise of the country's great cities. The medical advances of corporate capitalism saved children from infectious diseases and prolonged life, forever changing our perceptions of childhood, adolescence, and aging. The computers of Third Wave Capitalism