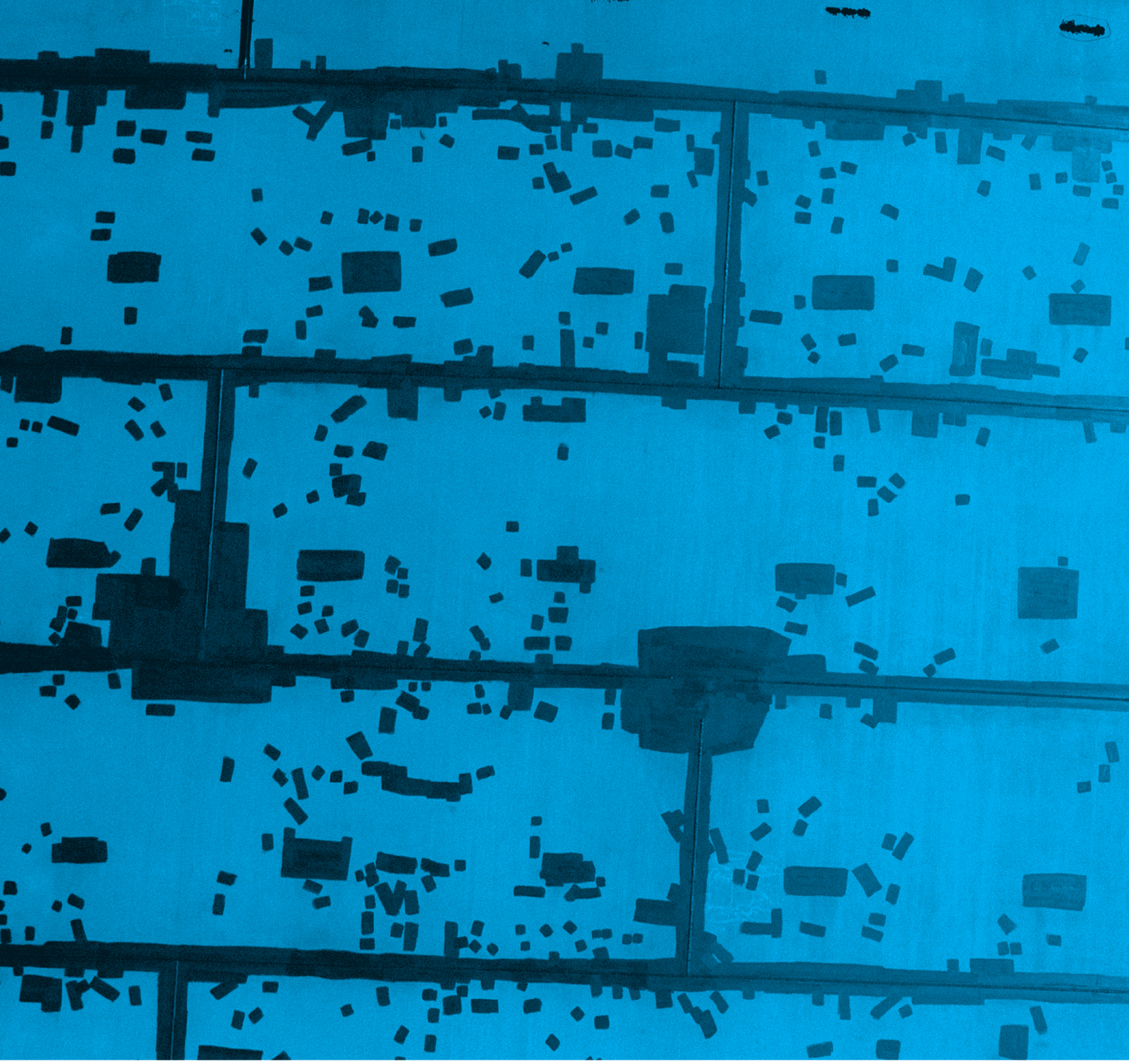

Catalyst

VOL 4 NO 2

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EDITORIAL

SUMMER 2020

As the COVID crisis rolls on, Donald Trump's America is, by any measure, approaching the status of a failed state. As the virus rips through the land, millions remain out of work, basic institutions of governance are compromised perhaps beyond repair, and elites are gridlocked on whether the scraps they call "relief" are to be renewed — all while a burgeoning billionaire class gets richer by the day.

Trump did not cause this sorry state of affairs. It has taken forty years of uninterrupted neoliberal rule to bring it about. But he has accelerated it to a point that even the most jaded had not anticipated.

In this issue, Ramaa Vasudevan observes that the state's abject failure on the domestic front should be contrasted with the far more effective and far-reaching interventions in international financial markets — in particular, the defense of the dollar. This reveals not only a greater commitment to preserving the United States's hegemonic position, but also an elevated *capacity* to do so relative to the institutions for domestic governance. This only deepens the need to think about an alternative financial model designed to cater to the working population, rather than the bankers who control it today. Gerald Epstein and Esra Nur Uğurlu propose a radical reform of monetary institutions, embedded in an analysis of past achievements on which we can build.

Of course, any talk of alternative models has to attend to the political balance — how to build power and wield it for change. In two sweeping analyses of the Global South, René Rojas and

Anand Gopal present a sobering audit of victories and defeats. Building on his analysis of the Pink Tide, Rojas now takes up the larger and more developed economies of three key countries in Latin America; Brazil, Chile, and Mexico, while Gopal examines the fate of the Arab Spring in the decade since its eruption.

The contrast is instructive. Taking Syria as an exemplar, Gopal locates the failure of the revolutions in the structural changes wrought by thirty years of neoliberalism, much as Rojas had done in his previous analysis of the Pink Tide [*Catalyst* Vol. 2, No. 2]. In the three American countries, on the other hand, Rojas shows that the retreat of the Left is not so much because of a structural weakness, as much as progressive governments squandering the political leverage that they had. Whereas the Arab Spring and the Pink Tide suffered from relying on a social base with little economic leverage, progressives in Brazil, Chile, and Mexico went about dissolving the leverage that they might have used. The result is a retreat of the Left throughout both regions, after a brief period of heightened expectations.

It is perhaps the contrast of rising hopes coupled with little class capacity that explains the rise of "hashtag activism" in the contemporary US left. In a biting review, Amber A' Lee Frost pours cold water on the idea that social media can help energize and even build the Left. As she rightly notes, while one can point to some instances in which platforms like Twitter have played a positive role, their net impact has surely been negative — deepening social atomization, creating a toxic culture of hostility and intimidation, and substituting accusation for argument. There is no substitute, Frost counsels, for the mundane, back-breaking work of organizing working people.

After all, if the Left is ever going to become a social force again, immersing itself in the daily lives of the working class is its only lifeline.


SERIES
2013

ABSTRACT

While the US state's response to the humanitarian crisis unleashed by the pandemic is fumbling and incoherent, its financial arms have moved with much greater urgency and purpose to ensure that international dollar hegemony is restored and reinforced through the crisis. This contrast highlights how the Federal Reserve System's nexus with finance and its commitment to preserve dollar hegemony is quite independent of the particular regime in power.

COVID-19 and Dollar Hegemony

Ramaa Vasudevan

The domestic response of the Trump administration to the COVID-19 humanitarian crisis has been marred by fatal indecision and incoherence. The early window of opportunity was squandered, and the number of new cases in the United States has continued to mount at a much faster rate than in any other country. The death toll in the country is the highest in the world. At the same time, the embrace of an isolationist, America First approach means that this regime is retreating from any role in spearheading a coordinated global response to the pandemic. The United States is unceremoniously exiting the World Health Organization, the multilateral institution set up to coordinate global health responses, even as the toll of the pandemic keeps rising. It stayed conspicuously away from a global summit organized by the European Union in May to raise funds to develop a vaccine for the virus. So, instead of a coordinated, wide-ranging global effort, we have a flurry of multibillion-dollar deals between few states in advanced capitalist countries and large companies to develop a viable vaccine — a ragtag approach that threatens to leave people in many nations without access to the vaccine once it is developed, while offering some companies and their investors the prospect of rich pickings.

In contrast to this abject failure on both the public health and humanitarian front, and the insular paralysis in steering or even supporting a coordinated global response to the pandemic, the full force of the financial firepower and authority of the US state has been brought to play with much greater urgency and purpose in its global financial governance. The US Federal Reserve has adroitly led a series of interventions that have averted a breakdown of the machinery of global finance in the pandemic's wake.[1] More significantly, its swift and extraordinary interventions have ensured that the mechanisms of dollar hegemony have been restored and reinforced. And in an astounding twist, these deliberate and far-reaching interventions to extend its safety net to global finance and reconstitute the mechanism of dollar hegemony are occurring with none of the public scrutiny and none of the outrage that had marked the Fed's interventions to bail out the financial system after the collapse of Lehman Brothers in 2008.

Over the past months, the Federal Reserve has pumped trillions of dollars into buying up assets in order to provide a backstop to the financial system. Equally significant, the Fed

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1 Adam Tooze, "How Coronavirus Almost Brought Down the Global Financial System, *Guardian*, April 14, 2020, theguardian.com/business/2020/apr/14/how-coronavirus-almost-brought-down-the-global-financial-system.

has ramped up and temporarily widened the ambit of existing mechanisms — swap lines — through which it coordinates with central banks in advanced capitalist countries to keep the financial system flush with dollars, in effect closing ranks around the dollar. Outside this core, it has launched a new arrangement — the repo facility — that, in effect, mobilizes countries in the periphery with reserves in their coffers into the efforts to restore the global flow of dollars, while reinforcing the hierarchy that embroiled these countries into supporting the dollar in the first place. Countries excluded from these arrangements — debtor countries in the periphery — have been left at the mercy of the financial markets, entrenching the role of US-led finance in their subordination. The Fed has so far been singularly effective in preserving and extending dollar hegemony.

THE FED, FINANCE, AND THE DOLLAR

The dominance of US-led finance is tied to the pivotal role of the dollar in the global financial system as a means of settling international payments and as a global reserve currency. The hegemony of the dollar in the global monetary hierarchy — the dollar standard— allows the United States to exercise an exorbitant privilege to mobilize and centralize surpluses and revenues from around the globe, to further enrich and entrench the power of US- led-finance.[2] The global dollar standard hinges, on one hand, on the pivotal role of the Fed in managing global dollar liquidity, and on the other, on the concerted push by the US state and US-led financial institutions to promote financialization globally. The Fed's capacity to secure and calibrate global dollar liquidity and ensure the stable

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2 Ramaa Vasudevan, "Finance, Imperialism and the Hegemony of the Dollar," *Monthly Review* 2008; Ramaa Vasudevan, "The Dollar Standard and Imperialism," in Immanuel Ness and Zak Cope, eds., *The Palgrave Encyclopedia of Imperialism and Anti-Imperialism* (London: Palgrave, 2016), 991–1001.

functioning of financial markets is itself embedded in the critical position of US financial institutions as the dominant hub of the global financial network and the deep nexus between the Federal Reserve and these institutions of private finance.

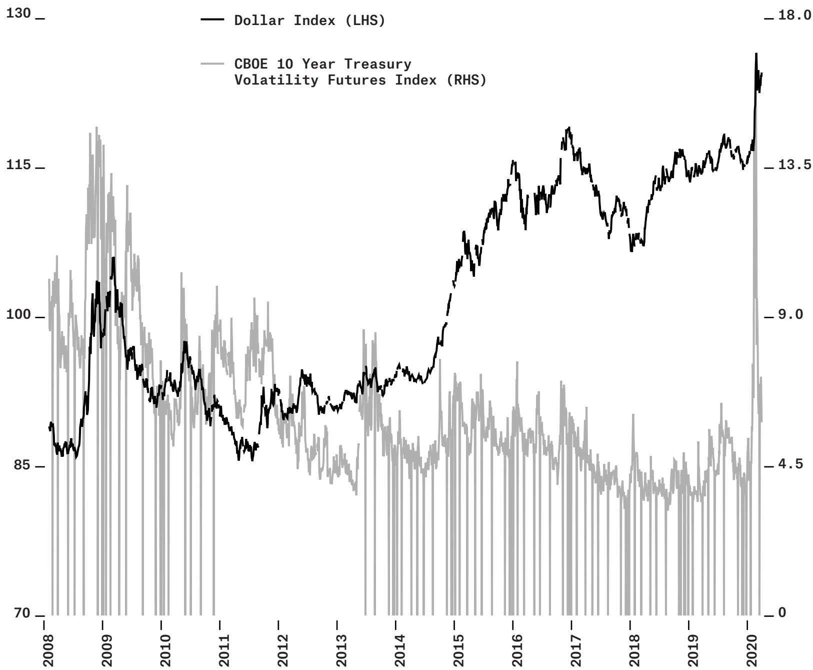
This nexus was in play as the Fed resorted to a slew of unconventional monetary policies to revive the stalled credit machinery and restore global dollar flows during global financial crisis (GFC) in 2008.[3] While the Fed may have averted another Great Depression, the US state has remained just as deeply embroiled in the power and influence of Big Finance, even after Big Finance had brought the global economy to the brink of collapse. These interventions also helped restore the global flows of capital. And so, even while the financial crisis shone a harsh spotlight on the underlying fragility of the mechanisms of the dollar standard, the hegemony of the dollar, paradoxically, was further entrenched.

More than a decade later, in the third week of March 2020, the financial markets once again witnessed a major meltdown as the pandemic swept across the world. As panic engulfed the stock market, investors began to scramble for the safe haven of dollars, launching a firesale of the more easily traded US treasuries. Then, that market also began to unravel.[4] This unraveling was the outcome of a surge in the global demand for dollars and a consequent rise in the dollar index, as the dollar was seen as the only safe asset amid the financial implosion. As can be seen from Figure 1,

3 Ramaa Vasudevan, "The Credit Crisis: Is the International Role of the Dollar at Stake?" *Monthly Review* 2009.

4 Joe Rennison, Phillip Stafford, Colby Smith, and Robin Wigglesworth, "'Great liquidity crisis' grips system as banks step back," *Financial Times,* March 23, 2020, ft.com/content/bd3c0ccc-6ce8-11ea-9bca-bf503995cd6f; Colby Smith and Tommy Stubbington, "Investment veterans try to get to grips with 'broken' markets," *Financial Times*, March 20, 2020, ft.com/content/97186440-6aa0-11ea-800d-da70cff6e4d3.

Figure 1. The Dollar and Volatility in the Treasury Markets



Source: Federal Reserve Economic Data (FRED)

the sharp rise in the dollar index mirrors the increase in volatility in US treasuries. The rise of the dollar is, in a sense, a measure of the panic that engulfed the global financial markets in March.

THE DOLLAR RULES

The dollar is at the apex of the global monetary hierarchy. It is on one side of 88 percent of foreign exchange transactions, with an average global turnover of about $5.8 trillion daily. More than four-fifths of these trades occur outside the United States.[5] Globally,

5 "Triennial Central Bank Survey: Foreign Exchange Turnover in April 2019,"

about half of the outstanding international debt securities and cross-border loans are denominated in dollars.[6] But there have been some noteworthy developments in the mechanisms and patterns of dollar funding since the financial crisis.

Big banks had been at the center of mechanisms of global liquidity in the period leading to the 2008 crisis. But the regulations put in place after the crisis, which require banks to hold higher capital and cash buffers, have meant that the big banks now play a relatively smaller role in global dollar funding. Since they are now required to keep larger holdings of capital and cash reserves on their books, banks are circumscribed in their use of these assets to further expand cross-border dollar loans. At around $13 billion, the dollar liabilities of non-US banks are nearly as large as their 2008 peak, though the geographic composition has shifted.[7] European banks, in particular, scaled back their dollar-funding activities after the crisis engulfed the Eurozone, while banks in Japan and China have stepped up lending .

But over the past decade, banks in the foreign exchange market have been overshadowed by the growing weight of non-banks — asset managers as lenders, and institutional investors and nonfinancial corporations as borrowers.[8] The global dollar debt of non-banks doubled from around $6 trillion in 2008 to $12

Bank for International Settlements, Monetary and Economic Department, 2019, bis.org/statistics/rpfx19_fx.pdf.

6 Committee on the Global Financial System Working Group, "US Dollar Funding: An International Perspective," Bank for International Settlements, CGFS papers no. 65, 2020.

7 Iñaki Aldasoro, Torsten Ehlers, Patrick McGuire, and Goetz von Peter, "Global Banks' Dollar Funding Needs and Central Bank Swap Lines. Bank for International Settlements bulletin no 27, July 16, 2020.

8 CGFS Working Group, "US Dollar Funding"; Wenxin Du, "What makes this dollar crunch different?" *Financial Times*, March 26, 2020, ftalphaville.ft.com/2020/03/26/1585218010000/What-makes-this-global-dollar-crunch-different-/.

trillion in 2019.[9] Non-banks (including insurance companies and pension funds in East Asia, in particular, and nonfinancial corporations from China to Chile) have begun demanding dollars, not only to mediate their acquisition of higher-yielding dollar assets but also to hedge their balance sheets against the fluctuations of their domestic currencies in relation to the dollar.

Another significant development is the role asset managers have come to play in global capital markets.[10] Funds that manage assets on behalf of clients and other investors have prospered in the post-GFC regulatory environment, seizing advantage of their successful evasion of the regulatory requirements of capital and cash buffers, and growing to about $74 trillion by 2019.[11] The sphere of asset management is also highly concentrated, with three US asset managers — BlackRock, Vanguard, and State Street — controlling the major share of global assets managed by this sector.[12] With their growing power, asset managers are shaping the rules and contours of global finance in significant ways[13] — so much so that this period has been christened "the age of asset management."[14] The clout of the big US asset managers

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9 "Statistical Release: BIS Global Liquidity Indicators at End-December 2019," Bank for International Settlements, April 27, 2020, bis.org/statistics/gli2004.pdf.

10 Hyun Song Shin, "The Second Phase of Global Liquidity and Its Impact on Emerging Economies," in Kyuil Chung et al., eds., *Volatile Capital Flows in Korea: Current Policies and Future Responses* (New York: Palgrave Macmillan, 2014), 247–57.

11 Suzy Waite, Annie Massa, and Christopher Cannon, "Asset Managers With $74 Trillion on Brink of Historic Shakeout," *Bloomberg*, August 8, 2019, bloomberg.com/graphics/2019-asset-management-in-decline/?sref=20UYQwS6.

12 José Azar, Martin C. Schmalz, and Isabel Tecu, "Anticompetitive Effects of Common Ownership," (May 10, 2018). *Journal of Finance* 73, no. 4 (2018): 1513–35.

13 Daniela Gabor, "Understanding the Financialisation of International Development Through 11 FAQs," Heinrich Böll Stiftung (Washington, DC, 2018), us.boell.org/sites/default/files/financialisationfaqs.pdf.

14 Andrew G. Haldane, "The Age of Asset Management?" Speech at the London Business School, London, April 4, 2014, bis.org/review/r140507d.pdf.

rivals, and in some ways eclipses, that of the globally powerful US big banks: Goldman Sachs, JPMorgan Chase, Citibank, and Bank of America.

With the rise of asset managers, market-based finance — the increasing resort to capital markets, in particular bond markets rather than bank loans — has also become more pervasive globally.[15] Financial innovation chased ways of making trades more active, so that more profits could be milked from small day-to-day fluctuations in the prices of financial assets trading in large volumes. This quest for returns fueled an explosion of global issuance of bonds and debt securities, as interest rates declined in advanced capitalist countries. The share of bonds and debt securities in global dollar-denominated debt rose from 40 percent in 2008 to 52 percent in 2019, so that it now exceeds bank loans.[16]

As a result of these developments, the hierarchical network of global dollar funding has become even more dispersed, complex, and interconnected since the GFC.[17] The broader reach and deeper penetration of US-led global finance is imbricating developing countries more tightly into US-led global financial cycles, so that credit conditions in these countries ebb and flow in tandem with those of the advanced capitalist countries — more specifically, the United States. Even more significantly, the gyrations of the dollar now play a pivotal role in driving these global financial cycles. As the dollar rises, credit flows to developing countries slow down as lenders pull back.[18]

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15 Shin, "Second Phase of Global Liquidity."

16 "Global Liquidity Indicators," BIS.

17 CGFS Working Group, "US Dollar Funding"; Du, "What makes this dollar crunch different?"

18 Erik Burcu et al., "The Dollar, Bank Leverage and Real Economic Activity: An Evolving Relationship," BIS Working Papers no. 847, March 2020, bis.org/publ/work847.pdf.

With the ricocheting disruptions to international trade and supply chains that took place as the pandemic spread in March this year, many firms across the world found themselves unable to meet their dollar dues. As markets imploded, the looming specter of uncertainty sent global investors to the safety of dollars. Institutional investors scrambled to protect their deteriorating foreign exchange positions with dollar hedges. Asset managers sold their holdings of long-term US Treasury bonds in order to raise cash dollars as investors began pulling out of these funds. These developments drained the dollar reserves of banks and financial institutions around the globe, and they were unable to fulfill this growing appetite for dollars.[19]

As a result, the private mechanisms that keep dollars pumping through the global financial system were jammed at precisely the moment when there was a global surge in demand for dollars, as panic spread through the financial markets.[20] The Fed is the final backstop for the dollar, and it bears ultimate responsibility for guaranteeing dollar flow.

CLOSING RANKS AROUND THE DOLLAR

The Fed swung into action to plug the shortfall in dollars that threatened to bring the global financial system to a grinding halt. While the Fed pulled out some of the same weaponry it deployed during the GFC, both the scale and the scope of its current interventions have gone far beyond what it undertook during the 2008 crisis. The imperative, however, was the same: to save and restore the private global channels of liquidity and credit creation anchored on the dollar.

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19 Zoltan Pozsar and James Sweeney, "COVID 19 and Global Dollar Funding," Credit Suisse, Global Money Notes no. 27, March 3, 2020; Egemen Eren, Andreas Schrimpf, and Vladyslav Sushko, "US Dollar Funding Markets During the Covid-19 Crisis — The International Dimension," BIS Bulletin no. 15, May 2020.

20 Eren et al., "US Dollar Funding Markets."

It was not enough to support banks and financial markets in the United States through the unprecedented expansion of the Fed's safety net, which was for the first time extended to include the market for corporate bonds. The Fed also stepped forward to bring key central banks together to reinforce a critical part of the financial plumbing that undergirds global dollar flows: the network of swap lines with five other central banks — the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. This network serves as a hub for coordinating the flow of liquidity to ensure the stable functioning of the global financial system.

This network of swap lines had been cobbled together during the GFC, when the implosion of the shadow banking system brought financial markets grinding to a halt. Swap lines were put in place to keep dollars flowing in order to preserve the global dominance of the dollar and the financial empire forged under its rule. European banks were heavily enmeshed in mobilizing funds

Federal Reserve Central Bank Liquidity Swap Lines

The Fed's central bank swap line is a special arrangement with select foreign central banks. Foreign central banks can use these swap lines to procure dollars for a short period of time (typically overnight or seven days) from the US Fed. To acquire dollars, the foreign central bank has to place an equivalent value of its own currency at the prevailing exchange rate as collateral with the Fed. At the end of the period, the arrangement is reversed, and the central bank returns the dollars to the Fed in exchange for its own currency, while paying interest. In effect, the central bank is swapping their own currency for dollars through this arrangement.

to fuel the securitization industry spawned in the shadow of US banks on the edifice of predatory subprime mortgages. As the markets dried up and European banks were faced with a dollar crunch, these swap arrangements served as the means to funnel dollars to them.[21]

The swap lines were meant to be a temporary arrangement in response to the 2008 crisis, but this critical network among the Fed and five other central banks was given a permanent status in 2013. It is now an integral part of the mechanisms that shore up the dollar's privileged global role.[22] This permanent hub of swap lines between the six central banks at the core of the global financial system provides greater elasticity and stability to the mechanism of international dollar liquidity by pumping dollars in when the private market channels for acquiring them dry up. Borrowed dollar reserves can be deployed by central banks to support the dollar-funding needs of their domestic financial system. Outside this core of top-tier central banks, a web of bilateral swap arrangements (many involving the People's Bank of China) was instituted to allow central banks in the periphery to conserve their dollar reserves and support their financial markets.

The existence of this hierarchical network of swap lines helped amplify the capacity of the private channels of dollar liquidity and the turnover in global foreign exchange transactions, much beyond what the Fed could have achieved on its own. From an average daily turnover of $3.5 trillion on the foreign exchange market in 2007, that number rose to $6.6 trillion in 2019, and the dollar's share rose from 85 percent to 88 percent.[23]

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21 Perry Mehrling, "Elasticity and Discipline in the Global Swap Network," *International Journal of Political Economy* 44, no. 4 (2016): 311–24.

22 Mehrling, "Elasticity and Discipline."

23 "Triennial Central Bank Survey," BIS.

When the economic fallout of the pandemic disrupted market channels for the provision of global dollars, the US Fed was swift to act. The coordination and cooperation that were missing on other fronts of the global response to the pandemic were rapidly mobilized to provide a safety net for the global financial system and pump dollars into financial markets.

On March 15, 2020, the Fed announced that it would provide *unlimited* dollar swaps more cheaply and more frequently. It also offered longer eighty-four-day swaps, along with the overnight and seven-day swaps. In addition to bolstering this hub of permanent swap arrangements, a few days later, the US Fed launched new *temporary*, *limited* swap lines with nine other central banks to further enlarge the pipelines of dollar liquidity.[24] This widening is an acknowledgment of the changing geopolitical landscape since 2008, and the need to draw broader line of defense for the dollar.[25]

So even while the US state has abandoned any role in forging a coherent, coordinated global strategy in response to the pandemic, and while the fractures in multilateral mechanisms are glaringly evident, the Fed has been effective in prodding the central banks at the core of the global financial system to act together to preserve the dollar as its anchor — and to spread a safety net that protects the financial markets in the core of the global capitalist system.

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24 These swap lines were for an amount up to $60 billion each for the central banks of Australia, Brazil, South Korea, Mexico, Singapore, and Sweden, and $30 billion each for the central banks of Denmark, Norway, and New Zealand (federalreserve.gov/newsevents/pressreleases/monetary20200319b.htm). In the wake of the 2008 crisis, too, the Fed extended temporary swap lines to the central banks of South Korea, Singapore, Brazil, and Mexico.

25 Adam Tooze, "This Is the One Thing That Might Save the World From Financial Collapse," *New York Times*, March 20, 2020, nytimes.com/2020/03/20/opinion/coronavirus-economy-currency.html.

REINFORCING THE HIERARCHY

The notable exclusion from this network of swap lines is the People's Bank of China (PBOC). Its exclusion is a reflection of the tensions simmering since the GFC, when the flaws and risks of the international financial system anchored on the dollar were laid bare. At that time, the governor of the PBOC made a case for a global "super-sovereign reserve currency that is disconnected from individual nations."[26]

Since then, China has launched a series of measures to shake off its dependence on the dollar and forge an independent global role for the renminbi.[27] With foreign reserves at around $3 trillion, the PBOC is the largest international holder of dollar reserves. The PBOC is locked into its holdings of US Treasury reserves by the constraints on its capacity to lend or transact internationally in renminbi. Despite sales of around $130 billion worth of US Treasuries amid the trade tensions of the past year, about $1 trillion worth of US Treasuries are still held by China, the second highest holder of US Treasuries after Japan.[28] The Chinese bond market, which had remained relatively stable as jitters afflicted the market for US Treasuries, saw an inflow of $10.7 billion into this renminbi-denominated market in March.[29] That the PBOC has

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26 Zhou Xiaochuan, "Reform the International Monetary System." Bank for International Settlements Review, 2009, bis.org/review/r090402c.pdf.

27 Haihong Gao and Yongding Yu, "Internationalisation of the Renminbi," in *Currency Internationalisation: Lessons From the Global Financial Crisis and Prospects for the Future in Asia and the Pacific* 61 (2011): 105–124; Paola Subacchi, *The People's Money: How China Is Building a Global Currency* (New York: Columbia University Press, 2016); Eswar Prasad, "China's Efforts to Expand the International Use of the Renminbi," Report for the US-China Economic and Security Review Commission, Brookings Institution, brookings.edu/research/chinas-efforts-to-expand-the-international-use-of-the-renminbi/.

28 ticdata.treasury.gov/Publish/mfh.txt

29 Hudson Lockett, "China's $13 trillion bond market shines as Treasuries turn treacherous," *Financial Times* March 24, 2020, ft.com/content/41044876-6ab4-

accelerated the launch of its digital currency in the midst of the pandemic is yet another move in its spate of initiatives to expand the international role of the renminbi.[30]

While the cracks in the mechanisms that underpin the dollar's global dominance are apparent, the Fed's actions reflect a concerted effort at preservation and reinforcement. Countries in the periphery are witnessing capital outflows and a depletion of their dollar reserves, but the network of swap lines leaves them out. Those with US Treasury holdings can raise dollars by selling these assets. At the end of March, as dollar demand was continuing to trigger a sell-off of US Treasuries, the Fed added a new temporary (six-month) facility for repo lending to other central banks: the foreign and international monetary authorities (FIMA) Repo Facility.[31]

With this new facility, the Fed has expanded the scope of its interventions beyond the hub of core central banks, and even beyond the next tier of banks that have access to temporary swap lines. It has now entered into direct dealings with other central banks to lend cash against their holdings of US Treasuries. On this front, too, the Fed has pushed the boundaries of its response in 2008-9 in its battle to save and restore the private channels of liquidity and credit creation anchored on the dollar.

The new repo facility is a second-tier mechanism that is meant to boost the capacity of central banks outside the inner circle of permanent swap lines and the broader network of temporary

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11ea-a3c9-1fe6fedcca75.

30 Helen Davidson, "China starts major trial of state -run digital currency," *Guardian* April 28, 2020, https://www.theguardian.com/world/2020/apr/28/china-starts-major-trial-of-state-run-digital-currency; Hannah Murphy and Yan Yang, "Patents reveal extent of China's digital currency plans," *Financial Times* February 12, 2019, ft.com/content/f10e94cc-4d74-11ea-95a0-43d18ec715f5.

31 Federal Reserve Press Release, March 31, 2020, federalreserve.gov/newsevents/pressreleases/monetary20200331a.htm.

FIMA Repo Facility

The FIMA Repo Facility allows select central banks with accounts at the Fed to acquire dollars by selling US Treasuries securities from their holdings to the Fed overnight, with the explicit agreement to buy them back the next day. The interest rate charged is set higher than that for swapping dollars through the swap lines where domestic currency (and not US Treasuries) is exchanged for dollars. For central banks denied access to the Fed's swap lines, the FIMA Repo Facility offers the route of an overnight swap of US Treasuries held against dollars, instead of having to sell US Treasuries outright on the market.

swap lines, allowing them to access dollars without having to sell off the US Treasuries in their coffers. There was a sharp drop in US Treasuries held by foreign central banks in their accounts with the Fed through March, when around $160 billion worth of US Treasuries were withdrawn. Alongside the tumult being witnessed in the US Treasury market, this posed a potential threat to the mechanisms underpinning the provision of dollar liquidity. The FIMA Repo Facility seeks to buttress these mechanisms by averting the need for foreign central banks to run down their US Treasury holdings in order to acquire dollars.

Central banks stockpile US Treasuries as a buffer against the risk of capital flight and currency crisis. But this compulsion to amass US Treasuries also ensures that these countries are mobilized into supporting the hegemony of the dollar by providing the United States with a perpetual credit line. In effect, the extension of the repo facilities to other central banks cements the mechanism by which countries in the periphery are locked in to extending a credit line to the United States, by preempting their need to relinquish their stock of US Treasuries. When central banks use swap lines to acquire dollars, they are exchanging their currency for the dollar. But when they use the Fed's repo facility, the collateral they offer to acquire dollars is the debt of the United States — ensuring the US global credit line is left intact.

By offering terms that were less attractive than the ones provided under the swap lines, the repo facility is also reinforcing the hierarchical ordering of the dollar hegemony. This asymmetry is visible in the smaller volume of dollars absorbed through the repo facility: a modest $1.4 billion compared to a peak of $449 billion in the combined swap lines.[32] Further, while the repo facility is open to all central banks with accounts at the Fed, it would only be of use to central banks with large holdings of US Treasuries, like the PBOC. It would not help debtor countries in the periphery with small reserves of US Treasuries, who are grappling with the catastrophic fallout of the pandemic and a mountain of debt.

TIGHTENING THE SCREWS OF DOLLAR HEGEMONY

Peripheral debtor countries are particularly vulnerable to capital flight and currency crisis. The compulsion to borrow from the international capital markets, primarily in dollars, to accumulate assets in domestic currency leaves them susceptible to the deterioration of their exchange rate.

The export of fragility to debtor countries in the periphery through successive waves of capital flows has played a critical

32 Aldasoro et al., "Dollar Funding Needs."

role in preserving dollar hegemony.[33] Each consecutive wave has been fueled by a surge of liquidity and easy credit conditions in the United States. And when the wave collapsed, and capital was pulled out of these countries by fleeing investors, crises were precipitated — the Latin American debt crisis in the '80s, the Tequila crisis and the Asian crisis in the '90s, the crises in Eastern European countries in the course of the financial crisis of 2007–09. US-led finance used these crises to impose policies (through the aegis of IMF bailouts) that enabled the deeper penetration of finance and wove these countries more tightly into the rule of the dollar.

The Fed's unconventional monetary policies after the GFC opened the sluices to another flood of capital flows to emerging markets, which have been more volatile since 2010.[34] A new wave of rising debt has built up in these countries since that year. Growing at a rate of 7 percent annually, this debt wave surpasses the three previous surges in debt since the '70s. It is also more globally widespread, embracing at least 80 percent of these economies, with debt in low-income countries rising from about 47 percent of GDP to 65 percent of GDP in 2019.[35]

In the changing financial landscape of the post-crisis world, asset managers and bond markets, rather than banks, emerged as the critical transmission channels for financial fragility. Corporate and non-bank borrowers in developing countries, who had been increasingly reliant on global bond markets and foreign currency debt for their borrowings, posed a risk in these countries even

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33 Vasudevan, "Finance, Imperialism."

34 International Monetary Fund, "Emerging and Frontier Markets: Managing Volatile Portfolio Flows," Global Financial Stability Report, April 2020.

35 M. Ayhan Kose, Franziska Ohnsorge, Peter Nagle, and Naotaka Sugawara, "Caught by a Cresting Debt Wave," *Finance and Development* 57, no. 2 (June 2020).

before the outbreak of the pandemic.[36] The exodus by global investors has hit these countries with debilitating force.

International investors pulled back around $80 billion from emerging market economies, with bond outflows alone amounting to about $30 billion in March as the pandemic burst onto the global scene.[37] This outflow exceeded that during the GFC and the "taper tantrum" of 2013 (when the Fed raised interest rates) by between 10 and 50 percent.[38] Between the escalating fiscal demands of dealing with the pandemic's toll on lives and livelihoods, the balance of payment shortfalls set off by the collapse of global trade, and the sudden halt to the inflows of capital, these countries are on the brink of a perfect storm.

The pandemic is igniting severe debt crises for developing countries. More than one hundred countries have sought emergency support from the IMF. The IMF has nearly doubled access to emergency loans to meet a demand of about $100 billion (one-tenth of its lending capacity of $1 trillion) and has provided some debt relief to twenty-nine low-income countries through the provision of special grants.[39] However, access to funds remains hamstrung by conditions related to capacity to repay debt, which is based on demonstrated commitment to neoliberal policy imperatives and assessments of existing debt renegotiations. Many

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36 Robert N. McCauley, Patrick McGuire, and Vladyslav Sushko, "Global Dollar Credit: Links to US Monetary Policy and Leverage," Bank for International Settlements Working Paper no. 483, January 2015, bis.org/publ/work483.pdf; Claudio Borio, "Vulnerabilities in the International Monetary and Financial System," Speech at the OECD-G20 High Level Policy Seminar, Paris, September 11, 2019, bis.org/speeches/sp191030.htm.

37 Bank for International Settlements, "Annual Economic Report," June 2020.

38 Peter Hördahl and Ilhyock Shim, "EME Bond Portfolio Flows and Long-Term Interest Rates During the COVID-19 Pandemic," Bank for International Settlements Bulletin no. 18, May 2020.

39 International Monetary Fund, "The IMF's response to COVID-19," June 2020, imf.org/en/About/FAQ/imf-response-to-covid-19.

countries remain ineligible, perhaps explaining why the full force of the IMF's lending capacity remains underutilized.

While the IMF and the G20 countries have backed some debt relief in the form of a temporary suspension of payments for low-income countries, the road ahead remains rocky, and the deck is stacked against debtor countries in the periphery. The United States has effectively axed a proposal to create additional reserve capacity in the IMF (through special drawing rights) to support low-income countries struggling to deal with the consequences of the pandemic —a proposal supported by the current governor of the PBOC.[40] As a result, the United States is ensuring that the rules of multilateral lending through the IMF remain tied to the imperatives of the dollar and US-led global finance.

Argentina's recent experience is an ominous glimpse of how the concentrated power of US-led finance, in particular the big asset managers who have emerged as the new power brokers, and the asymmetry of debt in the global monetary hierarchy ruled by the dollar, enforces the subordination of countries. Negotiations to secure a viable debt-restructuring agreement reached a deadlock in the face of the intransigence of the section of its main private creditors — a cabal of asset managers led by BlackRock —to restructure its $65 billion debt. The Argentinian government, has raised its offer from a recovery of 40 to 53 cents to the dollar for its creditors, but BlackRock held out for more, even as the IMF has supported the Argentinian position, placing Argentina yet again on the brink of a default.[41] After

40 Yi Gang, "The IMF should turn to special drawing rights in its Covid-19 response," *Financial Times* July 16, 2020.

41 Benedict Mander, "Argentina ready to consider ninth sovereign default, says Guzmán," *Financial Times* May 4, 2020, ft.com/content/cbe90202-0374-40ad-948f-ed850c3e45c9; Benedict Mander and Colby Smith, "Argentina set for default as it wrangles with bondholders," *Financial Times* May 21, 2020, ft.com/content/5c042213-85fa-4f28-9a37-03650a87024b; Colby Smith and Benedict

months of protracted negotiations, a deal was finally reached at 55 cents to the dollar.

In another sign of how the stranglehold of finance is being reconstituted in the wake of the pandemic, China opened the doors of its asset management sector to foreign funds in April. Even as the trade war and geopolitical tensions with the United States have escalated, BlackRock was among the first to apply to set up a fund in China, with its sights on establishing stakes in this fast-growing market, now the third largest in the world.[42]

BlackRock, the largest asset management group globally, is a key partner in the Fed's recent interventions to backstop the market for corporate bonds.[43] Reports that Larry Fink, the BlackRock CEO, is being promoted by Wall Street lobbyists as a possible pick for US Treasury secretary within the Joe Biden presidential campaign, show that its influence crosses party lines[44]. The global reach of BlackRock is becoming more pervasive and its nexus with the US Fed and the US state even tighter through the pandemic.

The rise of protectionist rhetoric, and the fractures in the mechanisms of global governance through which the United States exercises its imperial power, may be rewriting the rules of Pax Americana. It might be still too early to map the path ahead. But it is quite striking that the Fed has been successful in its efforts

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Mander, "Argentina's bondholders team up on new restructuring proposal," *Financial Times* July 20, 2020, https://www.ft.com/content/9c01ba4c-f4eb-4bab-88cb-a671e65cfa6b

42 Ryan McMorrow, "BlackRock applies to set up China mutual fund business," *Financial Times* April 1, 2020, https://www.ft.com/content/fec655ee-1003-4037-8425-0674615ad832.

43 Gillian Tett, "Why the US Federal Reserve turned again to BlackRock for help," Financial Times March 26, 2020, https://www.ft.com/content/f3ea07b0-6f5e-11ea-89df-41bea055720b.

44 Peter Goodman and Daniel Politi, "In Argentina's debt negotiations a kinder, gentler capitalism faces a test," New York Times July 31, 2020, https://www.nytimes.com/2020/07/31/business/argentina-debt.html.

to preserve dollar hegemony and restore the fortunes of US-led finance at a moment when the US state, with its current embrace of isolationism, has retreated from its imperial role in steering a consensus among the core of advanced capitalist countries.

The pandemic is a prism through which the US imperial power structure is being revealed. The rule of the dollar, instrumental to the exercise of US hegemony, has become even more opaque and pervasive. More significantly, the capacity of US-led finance to enforce, discipline, and subordinate countries in the periphery has grown far beyond the direct exercise of its political and military domination. It has become clear that the Fed's nexus with finance and its interventions to preserve and reinforce dollar hegemony are quite independent of the particular regime in power.

ABSTRACT

A progressive political agenda calls for public banking and finance institutions (PBFIs) to be widespread and large enough to meet the challenges of catastrophic climate change, economic exploitation, racial exclusion, and sustainable economic development. To fully succeed, we need the federal government and the Federal Reserve to underwrite PBFIs to the same extent they have supported private finance over the last several decades. Drawing on recent activist efforts and proposals, we describe models that move us toward these goals.

Are Bankers Essential Workers?

Gerald Epstein and
Esra Nur Uğurlu

During the global financial crisis (GFC, 2007–2009), Lloyd Blankfein, CEO of Goldman Sachs, famously said that it was unfair that people were so mad at him and other bankers for crashing the economy because, contrary to common belief, they were doing "God's work."[1]

God's work? Maybe so. But they were certainly not doing work for the economy, the taxpayers, or the people. Rather, it turns out, we were all working for them.

1 Daily Mail Reporter, "Goldman Sachs chief says 'we do God's work' as he defends the bank's mega profits," *Daily Mail*, November 8, 2009, dailymail.co.uk/news/article-1226114/Goldman-Sachs-chief-says-Gods-work-defends-banks-bumper-profits.html.

However preposterous Blankfein's claim was, he went on to argue something that is contained in almost every *Money and Banking* textbook and that is constantly repeated by economists, politicians, and bankers: "We're very important. We [bankers] help companies to grow by helping them to raise capital. Companies that grow create wealth. This, in turn, allows people to have jobs that create more growth and more wealth. We have a social purpose."

In other words: "Bankers are essential workers."

But the people are not buying it. When they clapped every night on their balconies at 7 p.m. or made signs or sent out heartfelt messages thanking "our essential workers," they mentioned health care workers, first responders, teachers, grocery store workers, delivery people, and farmers, among others. But bankers?

Still, the hard truth is that bankers make themselves "essential" by inserting themselves into the heart of the economy. This becomes most obvious during economic crises. In the run-up to periodic financial meltdowns, bankers' reach, wealth, and power means they can direct the nation's credit and, more important, its human and natural resources in socially perverse and destructive ways. Then, when their reckless actions get out of hand, they threaten all of us with economic destruction, unless we prop them up and bail them out. In this way, bankers and financiers make themselves essential workers the same way the local shake-down artist extracts protection money: pay up, or watch your store burn to the ground.

Believe it or not, the problem gets even worse — policymakers help to make the bankers "essential workers." In the current economic crisis, for example, the Federal Reserve (Fed) and the US Treasury made bankers essential workers to channel funds to small businesses and households and manage the Fed's securities market operations. These private banks stand to earn more than $17 billion in fees from this work, though they appear poorly positioned to handle this efficiently and quickly.[2] For instance, the $1.7 trillion asset management firm BlackRock has been commissioned by the Fed to manage several of its new bailout funds.[3] Bankers stand to gain millions in fees for an activity that could be carried out by the Fed itself just as easily, more cheaply, and without conflict of interest.

Thus, bankers have made themselves essential workers the way that most rent grabbers and middlemen do it: through political power, manipulation, and blocking the competition. These bankers' biggest fear is that public banking would provide this effective competition, nullifying their claims to be essential and therefore worthy of the public's largesse.

All this notwithstanding, there is a real kernel of truth to the bankers' and economists' claims. In any modern economy, especially capitalist ones, money and credit are foundational. They provide key mechanisms through which economic activity takes place, and they are the medium through which everyday transactions occur. They provide a conduit for economic policy. And, perhaps most important, in market-based economies, money and credit provide a key fulcrum on which major economic transformations can be effectuated.

Progressives need to grab this essential mechanism and turn it over to communities and the citizenry, so that they can apply it to their own purposes, rather than allowing bankers to make themselves essential even as they threaten to undermine the

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2 Laura Sullivan, "Banks Rake in $17 Billion in Fees for Small Business Relief Program," *NPR*, May 5, 2020 (Accessed July 8, 2020), npr.org/2020/05/05/850964030/banks-rake-in-17-billion-in-fees-for-small-business-relief-program.

3 Pedro Nicolaci da Costa, "A Glaring New Conflict of Interest Undermines Public Trust in Federal Reserve," *Forbes*, April 20, 2020, forbes.com/sites/pedrodacosta/2020/04/20/a-glaring-new-conflict-of-interest-undermines-public-trust-in-federal-reserve/#531d7933135d.

economy. We also need to design effective ways to help workers, communities, and the public at large to take more control over this critical financial system and use it as a tool for social, environmental, and political transformation.

Thankfully, this is not news to progressive activists and reformers. Many excellent ideas have been developed and promulgated in the United States and abroad to transform the financial system from a den of parasites to a set of useful institutions. Some of these ideas draw on institutions prevalent in other countries, while others are truly homegrown. In fact, there is a long history of successful and crucial public-oriented financial institutions. Ever since the financial crisis of 2007–2009, there has been a resurgence of activism by progressives who are trying to implement and promote socially oriented financial institutions in the United States and abroad.

In this essay, we describe what a socially useful and transformative financial system would look like and what role socially oriented financial institutions could play in that system. The United States and the global economy face many critical challenges, but this essay focuses on four especially important ones: revival and reconstruction of the economy amid the COVID-19 pandemic; transitioning to a carbon-free energy system to avoid catastrophic climate change; addressing racial inequality, poverty, and exploitation; and creating an economy that can produce meaningful and productive jobs for all while reducing the savage and destructive inequalities that pervade our society. Compared with what the United States has now, a much larger universe of publicly oriented financial institutions can play a crucial role in addressing these problems. We highlight the institutions that progressive activists have been working to build in the United States.

In the next section, we define and then describe the rationale for public banking and finance (PB&F) and suggest how PB&F could significantly contribute to the type of financial system we need to confront major challenges facing the US economy. In Section II, we give a brief history of public banking and finance initiatives in the United States, including a discussion of the historical limits and problems these institutions have faced. Next, we survey current initiatives in PB&F and report on a series of interviews we have held with public banking activists who are trying to bring these initiatives to fruition. Section IV concludes by emphasizing that, to overcome the tight constraints against broadscale and effective public banking and finance in the United States, we need the Federal Reserve and other large public financial institutions to underwrite PB&F to the same degree that they have underwritten private finance over the last decades. And we need activists and democratic monitors to ensure that public banking and finance institutions are created, thrive, and do their jobs.

I. THE FAILURES OF CAPITALIST FINANCE AND THE NEED FOR PUBLIC BANKING AND FINANCE

In communist China in the 1980s, any proposal to utilize markets to achieve a policy goal had to be justified by appealing to some failing in the planning system. Similarly, in our capitalist economy, and in the economics field dominated by capitalist ideology and power, any argument for government intervention or provision must be justified by identifying some "failure" of the market. This doctrinal game becomes absurd when the failures of the market system are as widespread and profound as they are in the United States. This required "market failure" justification for state intervention also makes little sense when one recognizes that contemporary monetary and financial institutions would simply not exist if not for state sanctions and support, at least not in any stable and sustainable form. Banking and finance would cease to exist without government subsidies and the legal apparatus that enforces contracts and allows banks to create money. In that sense, the state is at the very foundation of these activities, and it would be reasonable to expect that, in a democracy, communities should have a say in how these institutions are constituted and what services they provide to the people in return.

These days, one does not have to look far to identify examples of the state underwriting the capitalist financial system. In recent years, state expenditures to prop up and stabilize the financial system in the United States and elsewhere have been enormous. Estimates are that the Federal Reserve and the government spent as much as $30 trillion to prop up the US financial system during the GFC.[4,5] During the COVID-19 pandemic, so far, the Fed and the Treasury Department have committed to spend "whatever it takes" to keep the financial system afloat, with economists suggesting numbers as high as $8 trillion as an eventual price tag. Of course, no one really knows what the ultimate cost will be.

Even these astronomically high prices are merely the tip of the iceberg. The United States, along with most other large economies, spends billions of dollars to underwrite and structure the private financial system: the whole apparatus of banking regulators, tax subsidies, central banks, and the court system that adjudicates and enforces contracts.

In this sense, the public mandate underwrites not only the stability of the financial system, but modern finance's very existence.

What price does society charge for these vast services provided to private finance? It varies over time and place. In practice, the

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4 Better Markets, "$20 Trillion: The Cost of the Financial Crisis," February 22, 2017, bettermarkets.com/newsroom/20-trillion-cost-financial-crisis-3.

5 James Felkerson, "$29,000,000,000,000: A Detailed Look at the Fed's Bailout by Funding Facility and Recipient," Levy Economics Institute of Bard College Working Paper, no. 698 (2011).

terms under which public support for finance is provided — and what society gets in return for that support — strongly depend on the power relations between capitalist financial elites and the rest of society, including workers, industrialists, and the state. Racial and ethnic power relations are also crucial in determining the distribution of these benefits, as are the very structures of capital accumulation and technological relations.

Mainstream economists' rationale for public provision of finance, which rests on identifying "market failures," provides a weak foundation for public extraction of reasonable returns from private finance in exchange for state support. This approach assumes the near optimality of private finance as given, on its own and without government involvement. Social provision of financial services is assumed to be second rate and unnecessary unless proven otherwise: it is largely seen as "frosting on the cake." So, how high a price can society extract for Marshmallow Fluff?

The "market failures" that economists consider legitimate include: "externalities" — for example, stemming technological spillovers that high-tech innovation can create for companies other than those that invent and produce them; "public goods," such as a civic and democratic culture created in the public education system that contributes to social stability; and goods with large "economies of scale" that prevent a competitive market from providing sufficiently. Economists also recognize "financial instability" and the "lender of last resort" as justifications for public intervention. But here, the only public provision usually considered reasonable is to provide for the bankers and hope that will trickle down to stabilize the rest of the economy.

In effect, such rationales for public provision of finance focus on "filling gaps" that, for one reason or another, private financial institutions do not satisfy. Externalities and public goods can justify the government subsidizing student loans; technological spillovers can justify the Defense Department's Defense Advanced Research Project Agency (DARPA) engaging in research and development (R&D) and then transferring the results at subsidized rates to private business; economies of scale can justify subsidizing the operation of transportation systems and other infrastructure.

Looking at the problem this way, one goes on a hunt for gaps: small businesses have trouble getting loans, so you create a small business loan facility; many poor people and racial minorities do not have access to bank accounts and other banking services, so you create a financial inclusion bank. But as you keep looking, the gaps multiply: green finance; affordable housing finance for minorities; patient capital for long-term investing; long-term infrastructure finance; affordable and flexible education finance; low-cost retirement savings vehicles; low-cost insurance. The gaps go on and on. The hole swallows the bagel.

As this very long list of "gaps" shows, the private financial system in the United States doesn't even do a good job at the things it is supposed to excel at. Banks charge excessive fees for simple banking services. Asset management companies and financial advisers have major conflicts of interest. Banks engage in highly risky activities, expecting bailouts when they get into financial trouble. Private equity firms strip businesses and households of their assets by loading them up with debts, leaving them without the wherewithal to pay decent wages or compete with other companies.[6] In fact, some research has shown that, in the United States, the normal operations of our financial system contribute a negative value to the economy.[7] The authors estimate that these

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6 Eileen Appelbaum and Rosemary L. Batt, *Private Equity at Work: When Wall Street Manages Main Street* (New York: Russell Sage Foundation, 2014).

7 Gerald Epstein and Juan Antonio Montecino, "Overcharged: The High Cost of High Finance," *Roosevelt Institute*, July 12, 2016, rooseveltinstitute.org/overcharged-high-cost-high-finance/.

normal operations reduced US income by one year's GDP (about $22 trillion) between 1995 and 2020. Similarly, another study by the authors found that the financial system reduced the UK's GDP by the equivalent of two years' value over roughly the same period.[8]

In this situation, as in many important areas of social and economic life under capitalism, it is difficult to separate the market from its failures.

In short, the public provision of financial services should not merely try to do what the financial system does not. It should also do better at many of the things private finance already purports to do. Rather than merely "minding the gap," a PB&F institution should help restructure the financial system to better serve public needs, especially the short-term and long-term needs of the poor, the working class, and the planet.

Public Banking and Finance: What Is It?

Before going any further, we would do well to define the central concept in the essay: public banking and finance (PB&F).[9] There is a vast and growing literature on public banking, where one finds various definitions of it.[10] Generally, these stipulate that public banks ought to have one or more of the following characteristics:

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8 Andrew Baker, Gerald Epstein, and Juan Montecino, "The UK's Finance Curse? Costs and Processes," *Sheffield Political Economy Research Institute*, 2018.

9 This discussion has benefited greatly from an interview we had with Thomas Marois, Department of Development Studies, SOAS, the University of London who is one of the most interesting researchers of public banking. Marois also shared with us an excellent unpublished book which has informed some of the discussion in this section.

10 See, for example, Thomas Marois, "Towards a Green Public Bank in the Public Interest," UNRISD Working Paper, 2018; Gerald Epstein and Devika Dutt, "Public Banks, Public Orientation and the Great Financial Crisis of 2007–2008," in *Financial Innovation and Resilience* (Springer, 2018), 327–43; Robert C. Hockett and Saule T. Omarova, "Public Actors in Private Markets: Toward a Developmental Finance State," *Washington University Law Review* 93 (2015): 103.

1. public ownership

2. a public mandate

3. not driven mainly by profit maximization

4. a public/social/stakeholder orientation

Note that, according to this perspective, public ownership is not a necessary condition for a financial institution to be a public bank. Nor, as Thomas Marois emphasizes, is it a sufficient condition on its own.[11] Some financial institutions are owned by the government but support self-serving and even corrupt activities by governmental leaders. Similarly, a financial institution might have a social or stakeholder orientation and be privately owned.

In this essay, when we discuss PB&F, we generally mean financial institutions that have public support, have a social or public goal, and are not driven mainly by profit motives. Still, the precise structures and ownership characteristics of such institutions can vary. Marois's solution to this conundrum is that public banks are what public banks do: if a financial institution walks like a duck, and quacks like a duck, then it's a duck. By this perspective, a financial institution that serves as a public bank in one decade can be perverted or undermined and act quite differently in a subsequent decade, even though its "formal" ownership structure or charter has not changed at all. Thus, it is crucial to keep an eye on the actual activities of these institutions. Watch what they do, not what they say.

In this essay, we refer to these "ducks" as public banks and finance institutions (PBFIs). We have added the term "finance" to the more typical moniker, public banks, because in a market-based

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11 Marois, "Green Public Bank."

financial system like the United States, non-bank finance is huge — and therefore, having strong, publicly oriented, non-bank finance becomes crucial.

There are many different kinds of PBFIs, but they typically fall into one of several categories. *Retail banks* are deposit-taking institutions with branch networks that provide regular banking services for individuals, households, small businesses, corporations, and governments. *Development banks* do not typically accept personal deposits or offer personal banking services, but instead specialize in accessing cheaper sources of capital, supporting long-term investments, employment, and providing technical expertise to commercial banks, other institutions, firms, and governments. Some of these are *bankers' banks:* they provide liquidity and clearing facilities, technical assistance, emergency lines of credit, and credit supplies and underwriting for smaller public banks. *Universal banks* combine both these functions, taking deposits and offering regular banking services while providing funds, services, and expertise for longer-term development.[12]

Ten Potential Benefits of PB&F in the United States

In light of this approach, here are ten important functions PB&F could play in our economy.

1. *Competition and regulation*: Public options function as competition for existing financial institutions, thereby providing people with alternatives to private finance and possibly improving the products and services that private finance offers. The public option also provides a means of regulating private financial institutions through competition.[13]

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12 This paragraph draws on work from Thomas Marois. We thank him for sharing this work with us.

13 Mark Paul and Thomas Herndon, "A Public Banking Option as a Mode of Reg-

2. *Public goods*: Public goods, such as a highly educated population, efficient infrastructure, and long-term technological innovation with broad positive spillovers, can be supported by public finance institutions.

3. *Collective goods and complementarities*: Robert Hockett and Saul Omarova[14] describe collective goods as those that require concerted and collective action to come to fruition and generate productive outcomes. Mehrsa Baradaran implicitly uses this concept in developing her proposal of "A Homestead Act for the 21st Century," designed to provide housing for and revitalize poor neighborhoods.[15] In Baradaran's analysis, providing affordable housing is not sustainable in and of itself because there are a number of complementary goods that must be available at the same time, such as jobs, financial institutions, and grocery stores. Here, community development is a good that must involve collective planning and simultaneous financing in a number of different areas for any of the pieces to succeed. PB&F can be a useful mechanism to coordinate these activities.

4. *Crowding in*: Critics have argued that public provision of finance will crowd out private economic activity. But in many cases, it could have the opposite effect, bringing in more private investment. For example, the vast expenditure by the Defense Department on research and development has generated

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ulation for Household Financial Services in the United States," Roosevelt Institute, August 14, 2018, rooseveltinstitute.org/public-banking-option/. William Darity Jr, Darrick Hamilton, and Rakeen Mabud, "Increasing Public Power to Increase Competition: A Foundation for an Inclusive Economy," Roosevelt Institute, May 2019.

14 Robert C. Hockett and Saule T. Omarova, "Private Wealth and Public Goods: A Case for a National Investment Authority," *Journal of Corporation Law* 43 (2018): 437.

15 Mehrsa Baradaran, "A Homestead Act for the 21st Century," *The Great Democracy Initiative*, May 2019, greatdemocracyinitiative.org/document/21st-century-homestead-act/.

highly lucrative corporate activity, such as from IBM, Apple, and Google.

5. *Financial inclusion — fighting poverty, exploitation, and racial discrimination*: Financial exclusion, exploitation, and racial injustice are deeply ingrained social ills in the United States. PBFI's can help finance affordable housing; cooperatives; small businesses; education initiatives; financial services: all in communities of color and for institutions owned or controlled by members of the community.[16]

6. *Financial resilience and stability*: PBFIs, by contributing to a diverse financial ecosystem, help to make the financial system more resilient and robust. For example, unlike for-profit banks, publicly oriented financial institutions tend to perform countercyclically, helping to stabilize the economy rather than exacerbating crises.[17]

7. *Economic transformation*: For large-scale transformative issues, the social provision of finance will play a major role. These include long-term gestation periods, massive uncertainty, large economies of scale, and the need for complementary investments and planning. One example is the pressing need to make the transition to renewable and non-carbon-producing fuels, such as the Green New Deal. This requires investment in new technologies and infrastructure implementation. In such a multifaceted transformative endeavor, public provision of finance is crucial as a facilitating mechanism and a planning tool.

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16 Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (Cambridge: Harvard University Press, 2017).

17 Epstein and Dutt, "Public Banks, Public Orientation."

8. *Promote full employment and good jobs*: Credit allocation is key for job creation, including areas of structural unemployment, as well as patient capital for long-term gestation projects and infrastructure investments. Here, the quality of employment is as critical as the quantity ("high road" employment).

9. *Instrument of public policy*: In an economic transformation like the Green New Deal, public provision of credit is a powerful instrument of government policy. Countries that have made successful, rapid, and transformative economic changes, including the United States, South Korea, Taiwan, China, and Europe after World War II, all used public provision of finance as a carrot or stick to elicit desired corporate behavior and allocate credit to priority sectors.[18]

10. *Reducing the power of financial elites and countering capital strike*: Among the most important effects of PB&F — and a key reason capitalists often oppose it — is that having a public option reduces the market power of private capital and the political power of finance. Banks and other financial activities in the United States have become more concentrated, so that social provision will confront these oligopolies with more competition. Politically, public options reduce the power of the threat of a capital strike and of being "too big to fail." With a

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18 Alice Amsden, *The Rise of "the Rest": Challenges to the West from Late-Industrializing Economies* (New York: Oxford University Press, 2001); Gerald Epstein, "The David Gordon Memorial Lecture: Finance without Financiers: Prospects for Radical Change in Financial Governance," *Review of Radical Political Economics* 42, no. 3 (September 2010): 293–306, https://doi.org/10.1177/0486613410375416; John Zysman *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983);
Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2008), https://doi.org/10.2307/j.ctt7rpfs; Robert Pollin, "Financial Structures and Egalitarian Economic Policy," *New Left Review,* November/December 1995.

large PB&F footprint, we can say to Wall Street, "Go ahead and fail. Our PBFIs will provide the needed services without you." This possibility is not sufficiently emphasized in discussions of public banking. Moreover, PBFIs provide a counterweight if private finance threatens capital flight in response to progressive policies they don't like.[19]

Essential Finance in the United States to Confront Four Clear and Present Dangers

We have described ten functions that public banking and finance (PB&F) ought to serve in contemporary capitalism, focusing especially on the United States. But for our current historical conjuncture, we want to focus on the problems facing us that are especially important now.

At the moment, we are confronting four pressing economic and social challenges: recovery from the COVID-19 pandemic; demands for racial, social, and economic justice; the need to transition to a carbon-free economy; and addressing worsening economic and political inequality and unemployment.

Here are six specific ways that public banking and financial institutions can address these issues.

1. Provide a simple, efficient, and universally available payment mechanism. The lack of one has been demonstrated clearly by the great difficulties the US government has had in making funds quickly available to individuals and businesses during the COVID-19 crisis.

2. Offer universal access to short-term, emergency borrowing at fair costs and interest rates. With few having sufficient liquid

19 James Crotty and Gerald Epstein, "In Defense of Capital Controls" *Socialist Register*, 1996. And James Crotty, *Keynes Against Capitalism; His Economic Case for Liberal Socialism.* New York: Routledge, 2019.

assets available in the face of an economic emergency, and with credit access usurious at best, the COVID-19 crisis has revealed the high social cost of our banking system's low accessibility.

3. Channel significant financial resources to businesses, nonprofits, and cooperative institutions so they can survive emergencies and thrive in normal times. Many small businesses, cooperative institutions, and nonprofits have limited access to financial institutions for credit, and when they do, this access usually comes at a steep price.

4. Finance the transformation to a clean energy economy. Effective financial institutions will be required to mobilize and channel these funds in a timely and inexpensive way.

5. Finance infrastructure for a high-productivity economy, create full employment, and raise wages. Financial institutions that allocate "patient" capital for pressing social investments are required.

6. Address poverty and discrimination, and contribute to decent wages. Fixing major social problems, including racial discrimination in housing, jobs, business creation, and education; affordable housing shortages; and infrastructure provision, will require significant resources and financial institutions. Long-term socially and racially diverse capital accumulation must be appropriately funded. Many of the funds for capital investment in the United States are not only short-term oriented and discriminate based on race and gender, they also discriminate against unorthodox "business models" such as cooperative enterprises. Patient capital needs to be made available to foster widely shared prosperity and non-capitalist institutional models.

If these problems are to be effectively addressed, PB&F must play a major role in financing their solutions. But we must acknowledge that these problems are diverse, and so is the United States — geographically, demographically, and culturally — with a deeply rooted market-oriented system. The development of PB&F has to take into account these initial conditions. To carry out these functions, we will need a combination of public and private/cooperative financial institutions (some large and centralized, many smaller and decentralized), a range of ownership and organizational structures, and strong public-oriented government institutions, such as the Federal Reserve, to create an environment in which these different kinds of financial institutions can thrive.

Can Public Banking and Finance Institutions Thrive and Survive in a Capitalist Economy?

Capitalist economies, especially those dominated by neoliberalism, would seem to be a uniquely unhospitable place for public banking and finance. Yet, as Thomas Marois has documented, there has been a dramatic increase in PB&F's prevalence around the world in recent decades.[20] According to him, almost 700 public banks currently exist. Altogether, they control 20 percent of all bank assets, public and private. While it is true that public control of banking assets has probably fallen from its 1970s height of around 40 percent, today's economies are much bigger, and the total mass of public bank capital has grown substantially. A conservative estimate by Marois shows that public banks have combined financial assets totaling $38 trillion, which equals 48 percent of global GDP.

How can PB&F continue to thrive in the apparently hypercapitalist environment of most countries? Two factors are pivotal.

20 Marois, "Green Public Bank."

The first is one we have discussed earlier: the recent decades of financial crises, and especially the GFC, have led to the growth of PBFIs to rescue finance, if not the economy as a whole. The second may be a bit more surprising: in some ways, PBFIs are actually more efficient and safer than private financial institutions.

Some Competitive Advantages of PB&F

Despite the dominant economics claim to the contrary, there are some competitive advantages of PB&F that allow them a fighting chance, even in the capitalist marketplace, despite the fact that their mission is to address the social goals and services that private banks avoid.

These advantages include:[21]

1. PBFIs tend to emphasize *"relationship" banking* so that bankers and customers get to know each other well; this increases knowledge of credit risks and enhances trust, thereby reducing manipulative or fraudulent behavior on both sides.

2. *Public mandates and lack of shareholder control* typically lead PBFIs to adopt less risky behavior than their private counterparts. This can result in less instability.

3. *Access to capital at lower cost:* Many PBFIs have lower costs for capital because they are perceived as being safer than private banks that engage in high-risk activities. PBFIs tend to build capital through profit retention, since they are not under pressure to distribute dividends to shareholders, and they do not face the same shareholder demands for rapid expansion.

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21 This paragraph draws on: Olivier Butzbach and Kurt von Mettenheim, "Explaining the Competitive Advantage of Alternative Banks: Toward an Alternative Banking Theory?", in Olivier Butzbach and Kurt von Mettenheim, eds., *Alternative Banking and Financial Crisis* (Pickering & Chatto, 2014), Chapter 4.

4. *Public mandates lead to banks passing on advantages to customers*: PBFIs pass on lower expenses to customers rather than needing to pay extraordinarily high executive salaries and large amounts of dividends. This attracts more borrowers and more depositors and lenders.

5. *Economies of scale:* Even though relationship banking and tight monitoring of credit risks can be very costly, PBFIs can achieve economies of scale by joining PB&F networks that provide services like underwriting, technical assistance, and help identifying lenders and good borrowers. Such networks can at least partially erode some of the advantageous economies of scale that large private firms have.

Despite these possible advantages in efficiency, PB&F is nonetheless relatively small and disadvantaged in the United States compared with many other countries. Why is the United States a relative outlier in this regard? A look at the history of public banking in the United States can offer some clues.

II. A HISTORY OF PUBLIC BANKING AND FINANCE IN THE UNITED STATES

There have been numerous examples of state-supported public-oriented finance throughout US history. These were mandated under a variety of circumstances: some to meet a national emergency or war, others to achieve government development goals, and still others to do the bidding of regional, sectoral, or capitalists' interests. Some were developed in response to working-class or agrarian organizing and their demands for access to credit and financial services, and others in response to the organization and demands of racial minorities. Each of these initiatives has its own founding stories, but as a first pass, one could say that the more progressive ones were won through grassroots struggle and the mobilization of political power.

Many of these initiatives were effective in achieving their goals, at least for a period of time. But apart from those that were designed to bail out banks and other financial institutions, many state-organized financial institutions eventually faltered, usually as a result of fierce political opposition and sometimes due to corruption and co-optation by private financiers.[22] The majority of those that did survive were kept small and relatively ineffective in achieving the goals envisioned by those who fought for their creation.

This common constriction of PB&F is a result of the general dominance of our economic and political institutions by capitalist ideology and the power of finance. In countries with an influential socialist or social-democratic political culture, socially oriented financial institutions are much more likely to survive and even thrive than in the inherited structures of the United States. As Thomas Marois notes, the creation and evolution of PB&F institutions are shaped by the relative powers of different classes and ideologies in a hypercontested space of capitalism: finance. That is why the political power advocates can amass through activism is crucial to PB&F's future in the United States.

State support for financial institutions is inherent to the very nature of finance. The question is whether these financial institutions serve public purposes, and how well they do so. Historically, there have been many state-supported financial institutions that effectively promoted social and public purposes, at least for a time.

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22 For a useful short history, see: Mehrsa Baradaran, *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy* (Cambridge: Harvard University Press, 2015). On the populist movement of the late nineteenth century, see Lawrence Goodwyn, *Democratic Promise: The Populist Moment in America* (New York: Oxford University Press, 1976).

Apart from those associated with national emergencies or bailing out the banking system itself, successful initiatives have usually resulted from political organization, agitation, and the amassing of political power. Nonetheless, many of these successes were difficult to sustain. Preserving the mission of such institutions in the face of political and economic pressure from private finance, as well as responding effectively to financial innovation and structural changes, proved to be extremely challenging. Truly effective PB&F requires continuous support from the government and the vigilance of progressive political forces.

The State-Finance Nexus

The links between publicly oriented finance and the state go back hundreds of years.[23] Some of the earliest relations were between the church, philanthropic organizations, and banks, as, for example, in fifteenth-century Naples.[24]

During the eras of state building and dynastic wars in Europe, the linkages between sovereign states and banks increased dramatically. The direction of financial support initially went from banks to the state, with European banks financing wars, conquest, and lavish royal consumption. Eventually, the broad direction of support changed, with states giving financial institutions charters and monopolies over note issue, and then ultimately became bidirectional, with banks and states creating public-private partnerships to fund regional and national infrastructure, commerce, and other social goals.

In the United States, public banks were created early in the development of the nation. The first was the Bank of Pennsylvania,

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23 See Baradaran, *How the Other Half Banks,* Chapter 2.

24 Lilia Costabile and Larry Neal, eds., *Financial Innovation and Resilience: A Comparative Perspective on the Public Banks of Naples (1462–1808)* (London: Palgrave Macmillan, 2018).

a public bank established to help feed troops during the American War of Independence.[25] Alexander Hamilton saw these early banks as a way to finance the development of the new country, but he met great political opposition. With victory in the war, publicly founded banks began to multiply. This connection between state and finance was well described by Bray Hammond, the scholar of early American finance: "The community, whether shrewdly or not, had adapted private initiate and wealth to public purposes, granting privileges and exacting duties in return . . . there persisted a strong conviction that a [bank's] charter was a covenant."[26] This inherently public nature of banking was a recurrent theme throughout US history. In 1911, for example, the Kansas Supreme Court explained that banking is not a "matter of private concern only, like the business of the merchant, and for all purposes of legislative regulation and control it may be said to be 'affected with a public interest."[27]

Historically, there was great ambivalence in the United States over the desirability of big finance, especially big national banks, with conflicts between Hamilton and Thomas Jefferson over the first bank of the United States, and Andrew Jackson's opposition to the second bank. Yet despite these clashes, the United States would return, time and time again, to public-oriented financing during both national emergencies and periods of extraordinary economic transformation.

The federal government issued "greenbacks" to help finance the Civil War, a massive government financial intervention.[28] The

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25 Baradaran, *How the Other Half Banks*, 27.

26 Bray Hammond, *Banks and Politics in America: From the Revolution to the Civil War* (Princeton: Princeton University Press, 1957), as quoted in Baradaran, *How the Other Half Banks*, 28.

27 Baradaran, *How the Other Half Banks*, 33

28 Christine A. Desan, "The Monetary Structure of Economic Activity," Harvard

establishment of the national banking system in the 1860s and the creation of the Federal Reserve System in 1914 were more interventions in the financial system by the US government.[29] In 1911, the federal government established the Postal Savings System, which survived until 1967. The postal system banks provided easy access to savings accounts and payment services through US post offices. Much of the early public financial innovations aimed to help agriculture. For example, in 1916, soon after the creation of the Federal Reserve, the government created twelve federal land banks that encouraged the formation of hundreds of national farm loan associations. In the wake of the Great Depression of the 1930s, Herbert Hoover and then Franklin Roosevelt and their governments created a myriad of financial institutions to rescue the economy and finance farming, housing, critical production, and underwriting the war effort. These institutions included the Reconstruction Finance Corporation (RFC) to support industry, real estate, and housing; the Farm Credit System; the Federal Home Loan Bank System; and several government-sponsored enterprises, including Fannie Mae and Freddie Mac, directed at supporting the housing market.[30]

Important public financing initiatives also took place at the state and local levels. Perhaps the best known is the Bank of North Dakota (BND). Established in 1919, the BND serves as a model and inspiration for many current public banking activists.

The origins and operations of the BND provide an example of successful resistance to the purely market-oriented logic of the

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Public Law Working Paper no. 20-04, 2020, https://doi.org/10.2139/ssrn.3557233.

29 Desan, "The Monetary Structure."

30 Kurt von Mettenheim and Olivier Butzbach, "The United States: Alternative Banking from Mainstream to the Margins," in *Alternative Banking and Financial Crisis*, 185–94.

banking industry in the United States.[31] The BND was born out of a campaign by the populist Nonpartisan League, which was a political party formed by farmers, reformers, and radicals fighting against the monopoly power of the business institutions dominating North Dakota in the early twentieth century. The League initially aimed at establishing a system of rural credit unions, farm cooperatives, state-run mills, packing houses, and cold-storage plants that would serve the needs of the people.[32] In 1919, the North Dakota legislative session, taking its cues from the league's industrial program, created the BND. The legislation declared the bank's purpose as "providing low-cost rural credits, financing state departments and enterprises, and serving as a clearinghouse and rediscount agency for banks throughout the state."[33]

Today, the BND implements the so-called state partner bank model. In this model, the state of North Dakota deposits public funds in the BND. The BND then partners with local lenders, including local banks, credit unions, and other financial service providers, to provide the residents of North Dakota with high-quality and low-cost access to financing. Local lenders originate loans for agricultural producers, small businesses, and residential mortgages. The BND, in turn, partners with these banks by purchasing the loans from the originators. The BND, in a way, acts as a "banker's bank." Partnering with the BND enables the banks to

31 Marc Schneiberg, "Lost in Transposition? (A Cautionary Tale): The Bank of North Dakota and Prospects for Reform in American Banking," in Michael Lounsbury and Eva Boxenbaum, eds., *Institutional Logics in Action, Part A*, Research in the Sociology of Organizations 39 Part A (Bingley: Emerald Group Publishing Limited, 2013): 277–310.

32 Chad Hatzenbuhler, "The Birth of the Nonpartisan League," The BND Story, accessed May 30, 2020, thebndstory.nd.gov/the-early-years/the-nonpartisan-league/.

33 Hatzenbuhler, "Nonpartisan League."

originate loans that exceed their legal or internal lending limits.[34] Hence, the existence of the BND enhances the viability of small banks in North Dakota and strengthens them in competing against large out-of-state banks.

The operations of the BND amount to an alternative, decentralized, and regionally based circuit of capital that is used to the benefit of small businesses, farmers, local governments, and students. The bank channels the funds collected from state institutions to support economic development.[35] The BND does not use these funds in national or global financial markets to invest in derivatives or any other risky and speculative economic activity.

The resilience of the BND in the wake of the GFC has piqued widespread interest in the bank. Various studies found that, during the crisis, the BND remained profitable and had a better credit rating than most privately owned banks, while increasing its loans and letters of credit to North Dakota banks that required liquidity. This greater resilience is consistent with the literature on public-oriented banks in other parts of the world.[36]

The COVID-19 crisis has further demonstrated the effectiveness of the BND. While many small businesses in other states struggled to access the Paycheck Protection Program (PPP), small businesses in North Dakota managed to secure more PPP funds relative to the state's workforce.[37] As the BND and North Dakota banks were working efficiently to allocate PPP funds, a series of

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34 Yolanda K. Kodrzycki and Tal Elmatad, "The Bank of North Dakota: A Model for Massachusetts and Other States?" FRB of Boston Public Policy Discussion Paper, no. 11-2, papers.ssrn.com/abstract=1932426.

35 Schneiberg, "Lost in Transposition."

36 Epstein and Dutt, "Public Banks, Public Orientation."

37 Andrew Van Dam, "North Dakota Businesses Dominated the PPP. Their Secret Weapon? A Century-Old Bank Founded by Radical Progressives," *Washington Post*, May 15, 2020, washingtonpost.com/business/2020/05/15/north-dakota-small-business-ppp-coronavirus/.

class action lawsuits were being filed against Bank of America, Wells Fargo, and JPMorgan Chase for attempting to maximize the feeds they earned from distributing loans.[38]

Critics often argue that BND's resilience during the GFC stemmed from the loans it made to profitable state industries, including oil. By emphasizing its particularities, critics often project the BND as an irrelevant experience inapplicable to other contexts. The BND's investment in oil clearly contradicts the current demands of public banking advocacy groups (see below). Nevertheless, the BND provides a proof of concept for how a public bank could operate in the United States. It illustrates the enormous capacity of public banks to respond to local interests. Through a publicly agreed-upon charter, there is no reason why public banks in other states cannot direct their investment toward green energy and green jobs.[39]

During the Great Depression, the US government, in addition to establishing agricultural, housing, and industrial financing institutions,[40] implemented legislation to facilitate the creation of not-for-profit financial institutions to service households. Specifically, in 1934, Congress passed the Federal Credit Union Act, which embraced credit unions as critical institutions that can address the credit needs of the working classes.[41]

Credit unions were born to empower farmers and workers whose credit needs were not adequately served by existing

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38 Jake Tonkel and Nick Cortez, "Op-Ed: Public Banking Can Recharge South Bay's Economy," *San Jose Inside*, May 12, 2020, sanjoseinside.com/opinion/op-ed-public-banking-can-recharge-south-bays-economy/.

39 Eillie Anzilotti, "The One Strategy That Could Finance the Whole Green New Deal," Fast Company, June 26, 2019. fastcompany.com/90364616/public-banking-can-finance-the-green-new-deal.

40 Such as the Reconstruction Finance Corporation (RFC).

41 Mettenheim and Butzbach, "The United States: Alternative Banking"; Baradaran, *How the Other Half Banks.*

banking facilities.[42] They are structured as member-owned nonprofit cooperatives providing services to a designated group, such as government employees, association members, or residents of a geographic area. This common bond requirement was introduced to use personal knowledge about the members to offset the risk of lending to low-income earners. This feature tailored credit unions to serve the needs of low-income earners. Furthermore, their tax-free status helped credit unions to compete with commercial banks in these markets. The Federal Credit Union Act introduced a "one member, one vote" principle that gives each member voting rights independent of the amount of money they hold in their accounts.

The aggregate performance of credit unions, in terms of net income, late loans, net charge-offs, asset growth, and loan growth, compare favorably with commercial banks. Despite their better performance, credit unions still retain a much smaller market share than private banks and many other financial institutions.

Initially, the functions of credit unions were limited to providing inexpensive loans to their low-income members. Due to regulatory burdens, credit unions started losing customers and sought deregulation that would allow them to offer more attractive interest rates. Congress responded to these requests positively, leading to a change of mission whereby they lost their focus on poverty alleviation. Over time, credit unions switched from institutions supporting low-income earners into ones that would compete with commercial banks to serve the middle class.

Despite these regressive changes, credit unions still constitute an alternative to the purely profit-oriented logic of privately owned commercial banking. In general, they are less subject to

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42 Mehrsa Baradaran, "How the Poor Got Cut Out of Banking," *Emory Law Journal* 62, no. 3 (2012): 483.

pressures to maximize shareholder value compared to the commercial banks.[43] Even though they, too, invest in mortgage-backed securities, collateralized debt obligations, and other types of derivatives, they do so less aggressively than commercial banks.[44] They are more oriented toward serving their members than charging them an endless stream of fees. They return their profits in the form of lower interest rates on lending and expanded services. There are also some credit unions, called community development credit unions (CDCUs), that are specifically designed to serve low-income groups. CDCUs have the potential to direct more resources to underserved communities.

Community development financial institutions (CDFIs) represent an important component of public-oriented finance, some elements of which are still present. CDFIs are mission-driven organizations that aim to provide services that create and broaden economic opportunities within their communities.[45]They comprise a range of institutions whose primary goal is to improve the economic conditions of low-income individuals and communities.[46] For-profit community development banks, nonprofit CDCUs, and community development venture capital funds are all examples of CDFIs. These entities provide financial services that are often not available from mainstream institutions.[47]

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43 Marc Schneiberg, "Toward an Organizationally Diverse American Capitalism? Cooperative, Mutual, and Local, State-Owned Enterprise," *Seattle University Law Review* 34 (2010): 1409.

44 Schneiberg, "Toward an Organizationally Diverse."

45 Stephanie Geller, "Community Development Financial Institutions," TheNextSystem.org, March 16, 2020, thenextsystem.org/learn/stories/community-development-financial-institutions.

46 Lehn Benjamin, Julia Sass Rubin, and Sean Zielenbach, "Community Development Financial Institutions: Current Issues and Future Prospects," *Journal of Urban Affairs* 26, no. 2 (June 2004): 177–95. doi.org/10.1111/j.0735-2166.2004.00196.x.

47 Schneiberg, "Toward an Organizationally Diverse."

The roots of CDFIs can be traced back to the efforts of community activists who were fighting redlining in urban areas and seeking to redirect capital toward community-controlled banks.[48] The first banks targeting low-income neighborhoods were established in the late 1880s.[49] The 1930s and 1940s witnessed the emergence of credit unions designed to serve low-income earners and African Americans who lacked access to credit. During the 1980s, nonprofit loan funds began working toward promoting affordable housing and small business development.[50]

There was an attempt to provide a more organized form to these various initiatives in the 1990s through the establishment of the CDFI Fund and renewed implementation of the Community Reinvestment Act.[51] The fund aimed to increase the availability of affordable capital in areas that were historically underserved and discriminated against. To date, it focuses on fostering the development of loan funds, credit unions, and other financial institutions whose primary mission is to serve low-income communities. It also certifies organizations as CDFI to ensure that they meet certain criteria.[52] Currently, there are more than 1,100 CDFIs operating throughout the country. CDFIs have the potential to transform

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48 Geller, "Community Development Financial Institutions."

49 W. E. B. Du Bois, "Economic Co-Operation among Negro Americans," Atlanta University Press, 1907. Cited in Benjamin et al., "Community Development Financial Institutions."

50 Benjamin et al., "Community Development Financial Institutions."

51 The Community Reinvestment Act (CRA), enacted in 1977, mandated banks to address the needs of their entire service area and prohibited them from discriminating against any portion of their markets (Benjamin et al., "Community Development Financial Institutions"). However, for at least fifteen years, the CRA was largely unenforced. The revision of the CRA in the 1990s required banks to be judged on their actual lending practices in low-income communities. While these changes contributed to increased lending, the problem of redlining and underinvestment in low-income communities persists.

52 Benjamin et al., "Community Development Financial Institutions."

neighborhoods that suffered from historical disinvestment by providing capital that can be used to develop new businesses, affordable housing, and community spaces.[53] But, for the most part, they remain small, and their contributions are not adequate to address the problems of poverty and lack of investment in our cities and housing in the United States.

III. PB&F: A RESURGENCE OF ACTIVISM

The inefficiencies and excesses of the existing financial system revealed once again by the GFC have triggered a growing interest in alternative banking arrangements in the United States. The infrastructure problems in US cities, the exclusion of millions of Americans and especially people of color from essential banking services, and the private banking system's pernicious record of funding environmentally harmful projects have further fueled interest in a public and socially oriented banking and finance movement across the country.[54]

To better understand this movement and the activists driving it, we held a series of (remote) interviews with a number of them over several months in the spring and early summer of 2020[55]. Our discussion in this section is informed by these interviews as well as websites, reports, and secondary literature.

53 Geller, "Community Development Financial Institutions"

54 Sarah Jones, "Why Public Banks Are Suddenly Popular," *New Republic*, August 10, 2018, newrepublic.com/article/150594/public-banks-suddenly-popular.

55 We gained valuable insights from the following list of organizers, activists, and scholars through interviews and email exchanges: Michael Brennan (Public Banking Institute), Rick Girling (San Francisco Public Bank Coalition and California Public Banking Alliance), Ben Gordon (California Public Banking Alliance), Austin Sachs (Protect US), Thomas Marois (SOAS), Steve Seuser (DC Public Banking), Barbara Clancy, (Mass Public Banking), Earl Staelin (Rocky Mountain Public Banking) and the participants of the National Public Banking Alliance Monthly Zoom Meeting, June.

The Agenda of Public Banking Advocacy in the United States

The resurgence in activist interest in public-oriented finance represents the pressing economic, social, and environmental needs of our communities.

Environmental justice is one of the core principles of almost all public banking advocacy groups in the United States. Public banking advocates rightly point out the worldwide failure of private banks to pull their weight in climate finance despite having far higher numbers and more assets than public banks[56]. For instance, of the $454 billion invested in climate finance in 2016, public and private banks invested almost equal amounts in green investment, despite the fact that the former controls only 20 percent of total banking assets.[57] In the context of the failure of private banking to meet the needs of the environmental transition, there is a growing belief that public banking should finance green transitional infrastructure in the United States. The Green New Deal resolution drafted by Representative Alexandria Ocasio-Cortez and Senator Ed Markey cites public banking as an option in its financing. The Next System Project's proposal for a green investment bank, put forward by Thomas Marois and Ali Rıza Güngen, explores public banking in the context of financing the Green New Deal.

The lack of access to basic and low-cost financial services by a large portion of the US population is another major issue the public banking movement aims to address. According to some estimates, individuals without bank accounts, often referred to as "unbanked" or "underbanked," end up spending an average of 10

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56 Thomas Marois and Ali Rıza Güngen, "A US Green Investment Bank for All: Democratized Finance for a Just Transition," The Next System, September 20, 2019, accessed May 30, 2020, thenextsystem.org/green-investment-bank.

57 Marois and Güngen, "A US Green Investment Bank."

percent of their annual income on fees to cash checks, purchase prepaid debit cards, or use third-party services such as Western Union to send and receive money.[58]

The maintenance of checking and savings accounts costs banks money — around $250 every year.[59] Banks hire staff, pay for buildings, invest in technology, and build ATMs to maintain basic banking services. Given their profit-maximizing goals, banks reject the customers who are deemed unprofitable or repel them with punishing fees. According to the Federal Deposit Insurance Corporation, overdraft fees, service charges, and minimum balance requirements are among the main reasons people do not open bank accounts.[60]

The COVID-19 pandemic has further highlighted problems with access to financial services. As a part of the CARES Act, Congress agreed to distribute checks worth $1,200. A few weeks after the decision, millions of Americans received their stimulus checks, while unbanked or underbanked Americans expect to wait longer for their checks and pay fees up to 10 percent to cash them.[61] To facilitate the distribution of COVID-19 stimulus checks, several lawmakers, including House Speaker Nancy Pelosi and Representative Rashida Tlaib, proposed that the Fed offer digital accounts to Americans through the United States Postal Service (USPS) — but these proposals were not included in the legislation.[62]

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58 Mehrsa Baradaran, “Rethinking Financial Inclusion: Designing an Equitable Financial System with Public Policy,” Roosevelt Institute, April 16, 2020, rooseveltinstitute.org/rethinking-financial-inclusion-equitable-financial-system-public-policy/.

59 Baradaran, “Rethinking Financial Inclusion.”

60 Cited in Baradaran, “Rethinking Financial Inclusion.”

61 Baradaran, “Rethinking Financial Inclusion.”

62 Jeff Spross, “We Need to Send People Money. We Need to Fix How They Get It, Too,” *The Week*, March 28, 2020, theweek.com/articles/905207/need-send-people-money-need-fix-how.

Postal banking has indeed been one of the focal points of public banking advocacy in the United States. A postal banking system was in place in the United States between 1911 and 1966 that provided basic banking services to low-income, rural, and immigrant households.[63] Public banking options similar to postal banks are still in use in more than sixty countries, and they are shown to mitigate financial exclusion. Postal banking advocates argue that USPS can address financial exclusion by providing basic banking services such as deposits, bill paying, check cashing, and small loans. One advantage of reestablishing postal banking is that USPS already has an office in each ZIP code. Indeed, 59 percent of USPS offices are located in ZIP codes with either single or no bank branches exempting postal banking from major infrastructure problems.[64]

The socially productive use of state resources is another agenda item of public banking advocacy groups. Private banks charge local governments hefty fees to keep their deposits and provide cash management services. According to Public Bank LA, the city of Los Angeles pays about $100 million a year in banking fees and interest. Furthermore, most private banks use these funds to engage in practices that are inconsistent with many communities' values, such as predatory lending practices, funding private prisons and detention centers, and investing in environmentally harmful activities. Advocates believe that by reducing fees and interest payments, public banks can help states save money and channel these funds into socially productive investments, such as community housing. For instance, advocates in California claim that public banking can serve to address astronomical housing prices and homelessness by supporting community housing.[65]

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63 Paul and Herndon, "A Public Banking Option."

64 Paul and Herndon, "A Public Banking Option."

65 Adam Simpson, David Jette, and Juleon Robinson, "The Campaign for Public

Many advocacy groups believe that public banking can address racial and gender inequalities. Private banking in the United States has a long history of redlining, whereby people in communities of color are denied loans, including mortgages. Notwithstanding the federal Community Reinvestment Act of 1977, the practice persists throughout the country.[66] Advocates suggest that public banking can address these issues by supporting businesses owned by people of color and initiating more equitable mortgage allocation. For instance, the 2018 proposal for a Public Bank East Bay in Oakland, California,[67] recommends that when making loans, the bank should support housing development, business owners from marginalized communities, and businesses that pledge to hire members of marginalized communities, including those who were formerly incarcerated, the homeless, and people with disabilities.

Public Banking Networks

In recent years, public banking activists have established a nationwide network of organizations, advocacy groups, and nonprofit organizations. The Public Banking Institute (PBI),[68] Demos,[69] and National Public Banking Alliance (NPBA)[70] are among the central nodes in the public banking advocacy network. PBI is a think

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Banks, From Coast to Coast," The Next System, November 2, 2018, accessed May 30, 2020, thenextsystem.org/learn/stories/campaign-public-banks-coast-coast.

66 Yuh-Line Niou and Maureen Genna. "City Limits: NY Can Reduce Redlining's Residue by Backing Credit Unions," New Economy Project, March 28, 2019, neweconomynyc.org/2019/03/city-limits-ny-can-reduce-redlinings-residue-by-backing-credit-unions/.

67 https://californiapublicbankingalliance.org/wp-content/uploads/2018/04/FOPB_public_bank_of_oakland_governance_proposal_040918.pdf

68 https://www.publicbankinginstitute.org/

69 https://www.demos.org/

70 https://publicbanking.us/

tank and education organization formed in 2011 to promote state and local publicly owned banking. Demos is a public policy and research organization based in New York and affiliated with the magazine *American Prospect.* NPBA is a recent initiative that aims to mobilize communities to advance socially and environmentally responsible public banks throughout the United States. These organizations have forged connections with an extensive collection of state-level policy groups and nonpartisan advocacy organizations to tap into existing coalitions and mobilize them to support legislation.[71] They provide policy briefs and model laws to state officials and legislatures. They work directly with treasurers and legislators to introduce bills in their states, testify at hearings, and track bills' progress. As Marc Schneiberg puts it, these organizations operate as a clearinghouse for information about public banking legislation across the country.

North Dakota, home to the only state-level public bank in the United States, is a frequent reference point in almost any discussion on public banking, and not only because the Bank of North Dakota represents a thriving and resilient alternative to market-oriented banking (see above). It's also because the grassroots movements advocating for disinvestment campaigns against the Dakota Access Pipeline Project (DAPL) in North Dakota laid the groundwork for the most significant victory of the public banking movement in recent years.

In 2016, the DAPL, which projected a significant expansion of fossil fuel infrastructure, sparked massive protests for the water supply and livelihoods of the indigenous people of Standing Rock. #NoDAPL called on a global grassroots movement to advocate for disinvestment and prevent pipeline construction, and thousands of activities around the country participated. The activists ran

71 Schneiberg, "Lost in Transposition."

a divestment campaign against Wells Fargo, one of the fifteen banks lending to the DAPL project. The campaign focused on pulling some cities' deposits, including Seattle, San Francisco, Los Angeles, and Albuquerque, out of Wells Fargo accounts.[72] Thanks to the efforts of #NoDAPL activists, in February 2017, the city councils of Seattle, Washington, and Davis, California, voted to end their relationship with Wells Fargo. But this raised an important question: Where should local governments put their money instead? The failure to meaningfully divest from Wall Street banks gave rise to the Public Bank LA initiative, which began advocating for the creation of a public bank owned by the city of Los Angeles, managing city funds in the public interest.

Public Bank LA managed to build support around a city referendum to facilitate its creation. Even though the referendum fell short of the support it needed at 44.15 percent, this momentum translated into the California Public Banking Alliance (CPBA), which represents a coalition of grassroots groups in ten cities across the state.[73] In October 2019, thanks to the efforts of CPBA, public banking advocates won a significant victory in California, as the state passed the first municipal banking legislation in the country, AB 857. This legislation authorized California to charter ten municipal public banks over seven years.

Advocates in California have also been campaigning for the establishment of a state-level public bank. In 2019, Democratic senator Ben Hueso introduced a bill, SB 528, which aimed to transform California's Infrastructure and Economic Development Bank (the IBank) into an institution that could take deposits from cities and countries and provide loan guarantees and conduit

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72 Anzilotti, "One Strategy."

73 Michael Brennan, "Democracy in Banking: Modeling a State Partner Bank." Democracy Policy Network, forthcoming.

bonds to state projects that need financing. Although the bill failed, there is a new task force working toward converting the IBank into a state public bank. By July 8, 2020, a new bill, AB 310, was introduced to create a California state public bank. If it passes, this legislation will expand the lending capacity of the IBank and convert it into a depository bank that can leverage its capital up to ten times and direct its lending toward an equitable post-COVID recovery. With the prospect of establishing ten municipal banks and transferring the IBank into a state-level public bank, California has the potential to demonstrate public-oriented banking for the rest of the country.

Since 2009, more than thirty states have proposed legislation in support of public-oriented banking. According to PBI, there are organized community groups and candidates with public bank platforms in eleven states, in addition to the thirteen states that introduced feasibility studies between 2017 and 2020.[74] These initiatives are geographically widespread, including highly urbanized places like New York, California, and Massachusetts, as well as less populated states such as Maine, Montana, and Vermont.

Attempts to legislate public banking often start with feasibility studies that aim to find gaps in the existing banking system, such as by examining credit shortages and assessing how an alternative banking arrangement could be more equitable and sustainable. In some cases, the negative results of feasibility studies prevent public banking efforts from moving forward. For instance, in 2011, the state of Massachusetts commissioned a feasibility study of the Federal Reserve Bank of Boston that concluded the Bank of North Dakota model was inapplicable to Massachusetts.[75] In other

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74 https://www.publicbankinginstitute.org/legislation-local-groups-by-state/.

75 Kodrzycki and Elmatad, "The Bank of North Dakota."

states, such as in Vermont and Maine, legislatures were unwilling to endorse public banking regardless of the positive results of feasibility analyses.[76]

Among the initiatives for creating a public bank along the lines of BND, two efforts from Oregon and Washington produced positive outcomes, even though the results did not allow for a stand-alone deposit-taking institution. Oregon instituted a Growth Board that consolidated existing funds and programs for venture capital loans to seed start-ups.[77] Washington introduced two pieces of legislation, HB 2434 and SB 5464, establishing the Washington Investment Trust, which is expected to serve as a depository for state money and facilitate investment in infrastructure development programs.

With some exceptions, most notably in California, public banking is not nearly close enough to being put into practice. Despite operating in an antagonistic political climate, the public banking movement continues to build boundary-spanning networks, discuss and popularize new possibilities, and sustain independent discourse.[78] CPBA, Demos, and PBI continue to work with activist groups to support legislation in various states. Rocky Mountain Public Banking Institute, Mass Public Banking, Public Bank NYC, and Portland Public Banking Alliance are among the examples of boundary-spanning public banking advocacy groups.

While many of these initiatives are operating at the local or state level, some initiatives are designed to operate on a larger

76 Deborah M. Figart and Mariam Majd, "The Public Bank Movement: A Response to Local Economic Development and Infrastructure Needs in Three U.S. States," *Challenge* 59, no. 6 (November 2016): 461–79, doi.org/10.1080/05775132.2016.1239962.

77 Schneiberg, "Lost in Transposition."

78 Schneiberg, "Lost in Transposition."

scale.[79] One proposal calls for a green bank seeded with capital from the US Treasury and supported by loan guarantees and short-term financing from the Federal Reserve. Other ideas include a public investment bank that will incentivize the investment of private capital into green financing.[80]

In addition, PB&F initiatives are necessary to finance patient capital into long-term investments in human capital and technological innovation for "high road" jobs. Such attempts include the IBank initiative in California, a national investment authority,[81] and the resurrection of the Reconstruction Finance Corporation.

The role of the Federal Reserve is crucial in these initiatives. Successful large-scale PBFIs, like their private and for-profit counterparts, need to be backed by a bankers' bank with short-term financing, support during periods of financial crisis, and financial guarantees. The Fed fulfills these needs for US banks. Expanding its purview to include supporting PBFIs or creating a new institution to provide this support would be critical for the success of PB&F institutions.

As an illustration of this range of PB&F solutions, Table 1 presents a taxonomy of PBFIs. Table 1 identifies a variety of institutional solutions that include public, private, and public-private forms of ownership, as well as small, large, centralized, regional, and local institutions.

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79 For financing for a Green New Deal, see: Marois, "Towards a Green Public Bank"; Robert Pollin, *Greening the Global Economy* (Cambridge: MIT Press, 2015).

80 Hockett and Omarova, "Private Wealth and Public Goods."

81 Hockett and Omarova, "Private Wealth and Public Goods."

Table 1. Public Banking and Finance Institutions (Examples)

Source: Authors' rendering

ROLE	FUNCTIONS	OWNERSHIP STRUCTURE		
		PUBLICLY OWNED	PUBLICLY ORIENTED NOT-FOR-PROFIT	PUBLIC-PRIVATE PARTNERSHIP
Payment Mechanisms	Effectuate payments efficiently and cheaply	Postal savings bank, Federal Reserve accounts	Cooperative or nonprofit digital money mechanisms	Current banking system
Short-term credits for the working class and the poor	Access to funds for emergencies, income spending mismatches, etc.	Postal savings banks, state public banks, municipal banks	Cooperative banks, credit unions	Community development banks
Long-term credit mobilization and allocation, employment creation	Provide long-term credit for human and physical capital investments and innovations	Reconstruction Finance Corporation, national development bank, national infrastructure bank	Nonprofit, socially responsible investment funds with government support	National investment agency, socially responsible investment funds with government support
Wholesale finance, insurance provision, other finance facilities	Provide financial infrastructure to undergird publicly oriented financial system	Public banks (e.g., Bank of North Dakota), public credit rating agencies, democratized Federal Reserve		
Specialized Finance	Provide needed credit (and equity positions) for long-term critical social needs			

Climate change	Provide investments, underwriting, lines of credit, and guarantees in the development, consumption, and production of green energy	Green banks, green investment funds	Nonprofit green investment funds, socially oriented asset management funds	Public support for private funds that invest in renewable, green energy
Financial inclusion, community development, poverty reduction, housing	Comprehensive financial and investment plans, land transfer and housing	21st Century Homestead Act, local public banks, municipal banks, state public banks, postal savings banks	Community development credit unions, CDFIs, community development funds and public supports such as subsidies and financial infrastructure	Community development banks with private investment component (Minsky's proposal for a network of community banks with a public bankers' bank as facilitating institution)
Cooperative and socially oriented financial support	Provide support to cooperative enterprises and financial institutions that are socially oriented	Cooperative banking fund		
Education	Provide financial support for students and educational institutions	Public education fund for students and public educational institutions, debt cancellation and forgiveness facilities		
Housing	Provide affordable housing at federal, state, and local levels	Public housing financing banks and authorities; Federal Reserve financing of affordable housing		

Models of Public Banking in the United States and the Challenges They Face

For PBFIs to thrive in the long term, they have to be sustainable. Like private banks, PBFIs cannot continually run deficits and expect to survive unless they have a source of outside funds. This raises a question about limits on the banks' ability to achieve their social goals while remaining financially intact.

As we discussed in the previous section, PBFIs have certain advantages over private finance that allow them to compete. However, we cannot expect PBFIs to achieve their missions in a capitalist economy like the United States unless they receive the same kind of support that private banking does. If they were to receive even a fraction of the support that private finance gets from the government, they would generate significant benefits for society.

Public banks face several notable imperatives, constraints, and challenges, just as private banks do. They must raise funds to initiate their operations; they must not routinely lose money on their loans and investments; they must not become vulnerable to liquidity crises and bank runs; they must control the expenses they incur to locate, screen, and monitor their loan customers; and they must avoid fraud and corrupt practices on the part of managers and directors.

Thus, public banking and finance institutions face the following risks: funding risks, credit risks, liquidity risks, and corruption risks. These have to be managed properly if PBFIs are to sustain themselves and serve their public missions.

Funding Risks

One of the main challenges public banking organizations face is securing funds. These institutions can fund themselves by i) appropriation of public funds from the federal, state, or municipal budget, ii) bond issuing, and iii) the sale of bank stocks.

Take the example of a state-level or municipal public bank. The funds needed for capitalizing a state bank can come from pension funds, local governments, or the state government, either through bond issuing, repurposing "rainy day funds," or tax revenue. Most public banking initiatives consider a mix of approaches to meet capitalization requirements. Bond issuing has a political advantage because it avoids lengthy negotiations over the state or municipal budget. But the challenge is that it requires building enough trust in advocates' proposals that agencies and private investors will be comfortable participating in bond purchases and depositing their funds in public banks.

Another approach involves appropriating funds set aside for the purposes a public bank could serve. We dub this the "consolidation approach," as it requires consolidating preexisting authorities into a public bank. For instance, advocates in West Virginia proposes consolidating four different agencies that currently operate independently of one another to provide loans and investment options to citizens of Virginia into the Bank of West Virginia.[82] Advocates believe that by consolidating these agencies into a public bank that will have access to lines of credit from the Fed, they can eliminate inefficiencies and provide cheaper loans. Proposals to establish a state-level public bank in California similarly rely on a preexisting agency, the IBank.

Community development financial institutions (CDFIs) are another example.[83] The three levels of government make up 37 percent of the total financial resources of CDFIs. Local governments

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82 https://www.bankofvirginiaact.org/about.html

83 This draws on Clifford N. Rosenthal, *Democratizing Finance: Origins of the Community Development Financial Institutions Movement*, (Victoria, BC: Friesen Press, 2018); and Brent C. Smith, "The Sources and Uses of Funds for Community Development Financial Institutions: The Role of the Nonprofit Intermediary," *Nonprofit and Voluntary Sector Quarterly* 37, no. 1 (March 2008): 19–38.

provide funds through their involvement in local business development and housing provision. They further support CDFIs through tax incentives and government-sponsored small-business training programs. State government agencies, such as housing authorities and commerce departments, strategically employ CDFIs as a local policy-implementing agent to administer and distribute public capital. Finally, at the federal level, there is an entity in the US Treasury Department, the CDFI Fund, set up to enable CDFIs to build their balance sheets, make their own lending and investment decisions, and leverage private-sector support. Business development loan funds (BDLFs), another type of CDFI, are tasked with lending capital to businesses and nonprofit organizations that do not typically qualify for funding from traditional sources. They obtain capital in the form of grants and below-market-rate loans from federal and state governments, banks, and philanthropies, which they then relend at market rates, using the difference to finance their operations. Community development venture capital (CDVC) is another form of CDFI that provides equity capital to small businesses. CDVC funds come from banks, foundations, and state and federal governments, which invest in low-interest debt or equity for periods of ten or more years.

Liquidity Risks[84]

All deposit-based financial intermediaries are subject to liquidity risk: the bank runs portrayed in classic movies *It's a Wonderful Life* and *Mary Poppins* show vivid Hollywood renditions of this dry technical term. PBFIs can maintain sufficient liquidity by keeping

84 This section draws on Sebastian Leder Macek, "Public Banking in the Northeast and Midwest States," The Northeast-Midwest Institute, September 2019, nemw.org/wp-content/uploads/2019/09/Public-Banking-White-Paper.pdf; Karl Beitel, "Municipal Banking: An Overview," Roosevelt Institute, 2016; Karl Beitel, "The Municipal Bank: Compliance, Capitalization, Liquidity, and Risk," Roosevelt Institute, 2016.

a portfolio that is not highly speculative and that has a buffer of liquid assets such as US government securities; by establishing lines of credit with larger public financial sources such as the state, the Federal Reserve, or the Federal Home Loan Bank Board; by gaining access to deposit insurance; and by having a stable deposit base — often represented, in the case of municipal or state banks, by payroll and tax deposits from the state or municipality that operate on a predictable schedule.

Credit Risks

A rigorous loan approval process and knowledge of borrowers is key to managing credit risks. Smaller, geographically concentrated PBFIs may incur extra risk from geographically concentrated credit shocks. But having access to networks of public banks or other financial institutions that will allow PBFIs to sell off some or all of their illiquid and large loans can help them manage highly concentrated risks.

Corruption Risks

A final potential risk facing PBFIs is the undermining or perversion of their activities by financial officers of bank boards that attempt to defraud or corrupt the bank — or, more subtly, increase the bank's returns by lending credit or buying assets that might have higher returns but that are not consistent with the mission of the institution, or that might be excessively speculative and risky. The solution is to have broad-based, democratic input into the operation these institutions, strong technical management, as well as monitoring by appropriate national, state, and local authorities.

Challenges

Technical expertise in the development of PB&F initiatives can be a challenge. For example, our interviews with public banking organizers informed us that organizations sometimes find it challenging to maintain control over the quality of feasibility studies due to lack of financial resources. Given that public banking advocacy is largely built on voluntary efforts, suffering from a lack of financial resources and shortcomings in some operational capabilities is to be expected. To succeed, funding and technical infrastructure for activists promoting PB&F must increase significantly. Private foundations are one source of funding, but they are often quite flighty, subject to fad and fashion. There is no substitute for the investment of federal, state, and local government funds, for the design and development of public banking and finance.

Several advocates we interviewed stressed that one of their biggest problems is the lack of understanding of public banking. Many people find money and banking intimidating subjects to be left to experts — a problem further aggravated by the lack of familiarity with the concept of public banking in the United States. Building support to pass legislation in more states will require educating the population and interest groups about how an alternative PB&F system could work.

Finally, the power of market-oriented interest groups in framing debates and influencing policy-making presents significant challenges to public banking initiatives.[85] As such, public banking needs to be supported by a broad-based movement that would contest the neoliberal paradigm and overcome political gridlock by replacing incumbents who are hostile to PBFIs.

IV. CONCLUSION

The financial infrastructure of the United States is not appropriate for addressing the massive challenges we face — far from it. Despite having the most "advanced" private financial system in the

85 Schneiberg, "Lost in Transposition."

world; being home to megabanks, the dominant asset managers, and management companies;[86] and being the center of shadow banking institutions and the premier central bank and currency on the planet, the United States finds itself with a financial system that ignores the needs of its communities, its businesses, and the planet.[87] Even worse, it requires multitrillion-dollar bailouts by the public on an increasingly frequent basis, while generating extraordinary riches for its management and creditors despite its abject failures.

In other countries, there has been a resurgence of public-oriented banking as the challenges facing their economies and the failures of the private financial institutions mount. But in the United States, apart from the public bailouts that have effectively "nationalized" some of the financial institutions, including government-sponsored enterprises (GSEs) like Freddie Mac and Fannie Mae, public banking and finance has remained small and underfunded. Why?

The answer is the opposition of the private banking system, their political friends, and the public financial governance institutions that favor private banking — most importantly, the Federal Reserve. The story of public banking after the GFC tells the tale. In response to the failures of finance and the enrichment of private bankers at the public trough, more than thirty proposals for state and municipal public banks were developed and pushed forward.[88] But, with the exception of California and possibly New Jersey, none of these initiatives have come to fruition. In Massachusetts, the Federal Reserve's opposition was quite explicit: it reviewed the

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86 Gerald Epstein, "The Asset Management Industry in the United States," PERI Working Paper, 2019, peri.umass.edu/publication/item/1243-the-asset-management-industry-in-the-united-states.

87 Epstein and Montecino, "Overcharged."

88 Schneiberg, "Lost in Transposition," 285.

proposal for a state bank and pronounced that it was unnecessary and would be unsuccessful. Bills in other states met similar fates.

This opposition came about even though those framing these proposals were careful to follow the Bank of North Dakota model of partnership banks that would not compete with private banks at all. But the danger of risking future competition was too great for private-bank-friendly politicians to stomach. The general anti-government ideology prevalent in the United States likely also played a role.[89]

The risk is that, as activism for public banking and finance regenerates, the same ideological counterforces will squash it once again. Preventing that from happening and continuing to build a substantial and effective public banking and finance system in the United States will require not only continued grassroots efforts but also strong efforts at all levels of political organizing.

Institutionally speaking, what is needed to foster PB&F on a scale that can truly address the challenges we have discussed here is for the premier public financial institutions in the United States, including the Federal Reserve, the US Treasury, and the Federal Home Loan Bank Board, to step up and provide the infrastructure supports for PBFIs that they do for private finance. This means supplying liquidity facilities, seed capital, loan guarantees, equity investment partnerships, technical support, and emergency backup. Without this financial infrastructure, PB&F will be at a disadvantage relative to private finance and will not be able to provide the public options that will make it more efficient, more socially responsible, and competitive.

In the last two economic crises, the Federal Reserve has shown that it has the capacity to provide financial facilities outside its typical modes of action. In the current COVID-19 crisis, the Fed

89 Schneiberg, "Lost in Transposition," 303.

has created multiple structures to prop up the financial system as usual, as well as a few that are designed to provide funds to medium-size businesses and state and local governments. Yet the Fed has failed to design these facilities in a way that can genuinely offer broad assistance.[90] For example, the Fed has a capacity to spend $450 billion for state and local finance, but it has spent only $14 billion in that arena. Meanwhile, it has spent many billions of dollars to prop up asset markets, including corporate junk bonds.

It's clear that there is more the Federal Reserve can do in this respect. Just as it did during World War II, the Fed can first implement and then expand its facilities to help support the creation and expansion of PBFIs. At the national level, it can support critical initiatives like a green bank, a postal savings bank, and Fed accounts. Regional Federal Reserve Banks, in turn, can play a larger role in supporting regional, state, and local PBFIs, including creating state and municipal banks and infrastructure finance banks.[91]

The last decade has made it obvious that the problems we face are growing, and that the likelihood our bloated private financial system can help solve them is shrinking. We have to think as big as the problems confronting us. Building public banks is critical for our future. Now we must work at the national level to make sure existing public financial institutions support these efforts, rather than standing in the way, as they have done for so long.

90 Gerald Epstein, "Human Capital Bonds and Federal Reserve Support for Public Education," Just Money, 2020. justmoney.org/g-epstein-human-capital-bonds-and-federal-reserve-support-for-public-education-the-public-education-emergency-finance-facility-peeff/.

91 See, for example, Epstein, "Human Capital Bonds"; and Gerald Epstein, "Reforming the Federal Reserve for the 21st Century," in Gerald Epstein, *The Political Economy of Central Banking: Contested Control and the Power of Finance* (Elgar Press, 2019), Chapter 23.

ABSTRACT

The Arab revolutions of 2011 promised to usher in the greatest democratic transformation since 1848, but in the end, almost all the uprisings failed spectacularly. To understand this defeat, this essay seeks to reintroduce a class analysis of the Arab Spring and examines how the regional turn to neoliberalism in the 1990s and 2000s shaped the patterns of revolutionary mobilization and, ultimately, sealed the revolutions' fates.

The Arab Thermidor

Anand Gopal

In 2011, the Arab world was gripped by a great awakening, a popular uprising for democracy unlike anything seen since 1848. No fewer than a dozen Arab-speaking countries witnessed upheaval, and in six — Egypt, Libya, Tunisia, Bahrain, Yemen, and Syria — revolutionary movements threatened state power. In the end, all but one of these movements failed spectacularly. Only Tunisia was blessed with a successful democratic transition; Libya, Yemen, and Syria collapsed into civil war, and Egypt slid into a new era of despotism. Bahrain's uprising was crushed by Saudi tanks.

The debacle has spawned several explanations. Liberal commentators argue that the uprisings did not receive adequate support from the "international community," while many on the

Left, pointing to the lack of "moderates" and secular leftists in the revolutionary ranks, question whether the uprisings held any emancipatory potential to begin with. Both claims, though, fall short of evidence. For example, the Tunisian revolution, the Arab Spring's sole success story, garnered little foreign support. On the other hand, foreign powers were heavily invested in managing Yemen's democratic transition, an intervention that proved so disastrous it set off a civil war. And the claim that the uprisings were Islamist in character from the beginning belies copious evidence from the ground, to the point where sections of the Left have resorted to Islamophobia or conspiracy theories to maintain this position.

Even if these claims *were* true, they'd only raise further, more vexing questions. If the uprisings failed because of insufficient support from Western powers, then why were these movements dependent on foreign support in the first place, especially when their historical analogs had been self-sufficient? And if the uprisings were doomed because of the dominance of fundamentalism, then why, in a region once in thrall to Arab nationalism and communism, is political Islam the argot of resistance today?

The standard critiques are correct, however, in recognizing that the uprisings don't quite fit the classic model of democratic revolutions, in which parties and classes are the protagonists. Though the six revolutionary movements underwent quite different trajectories, they shared common organizational principles and ideology. In the initial stages, the revolutionaries expressed an aversion to political parties and centralization. The movements extolled leaderlessness, verging on horizontalism. "Revolutions of the past have usually had charismatic leaders who were politically savvy and sometimes even military genius," wrote the liberal Egyptian revolutionary Wael Ghonim. But the new revolt, which he dubbed "revolution 2.0," was a "truly spontaneous movement led by nothing other than the wisdom of the crowd."[1] At first, the uprisings were not comprised of political parties or institutions; instead, they were organized territorially — most famously in the occupation of public spaces like Tahrir Square in Cairo. Over time, though, the uprisings developed organizational and hierarchical structures, including neighborhood committees, local councils, and armed factions. Those participating in these bodies were united by kinship or geography, not through membership in a political party or by sharing a political vision. Focused on local service delivery, these new bodies resembled NGOs rather than traditional political parties. Classic left and liberal parties were unable to penetrate these structures. Eventually, these bodies were either taken over by Islamists or dissolved by the counterrevolutionary regimes.

The ideological character of the uprisings went through a similar evolution. In the early stages, the revolutionaries fashioned themselves as belonging to a post-ideological movement. In reality, though, they were as ideological as any political movement — but their worldview simply mirrored international liberal norms, a doctrine so thoroughly internalized that it seemed like common sense. The movements for democracy were articulated through an individualistic, rights-based discourse, with a special emphasis on human rights. Among the revolutionary leadership, there was almost no talk of substantive equality, wealth redistribution, or property relations. The liberal revolutionaries appealed to the "international community," which usually meant the Western powers. They believed that by documenting human rights violations and the transgression of (putative) global norms, concerned citizens and world powers would be moved to act, or that international pressure would constrain the counterrevolutionary regimes'

1 Asef Bayat. *Revolution without Revolutionaries: Making Sense of the Arab Spring* (Stanford: Stanford University Press, 2017), 16.

ability to wage bloody repression. But this liberal phase did not last long. Within two years, as the regimes imprisoned and killed thousands, the uprisings witnessed an increased condensation of social forces into opposing camps: liberal and illiberal. The latter included either various stripes of Islamic fundamentalists or new strongmen. The uprisings increasingly took on an identitarian character, bifurcating along sectarian or religious–secular lines. In the end, the liberal rhetoric of the early revolutionaries was discredited, and many looked to illiberal alternatives.

To understand what happened, we must grapple with the changing social structure in the Arab world over the previous four decades. Both liberal and left explanations fall short because they ignore the role of class in explaining the outcome of the uprisings. They miss the profound shifts in class structure that have taken place in recent years, a transformation that shaped the patterns of mobilization and, ultimately, sealed the revolutions' fate. Only by bringing class analysis back in can we begin to see that the challenges the revolutionaries faced ran much deeper than lacking foreign support or the correct strategy.

The revolutions that failed did so because the movements lacked the structural power to overthrow the regimes. This power resides in the ability of subaltern actors to engage in collective action that threatens the underlying basis of elite power. Until the 1990s, the Arab world was organized around a social contract wherein the masses were incorporated into state-run bodies, through which they received basic protections from the market as well as a means of representing their interests. In exchange, they surrendered all democratic freedoms, along with the right to independent organization and collective bargaining. The region-wide neoliberal turn, beginning in the early 1990s, unraveled this social contract. Not only did the reforms gut the social safety net and expose millions to the market, they transformed the nature of work. Without membership in corporate bodies, people no longer had the connections to secure scarce public-sector jobs. Meanwhile, crony capitalism limited the growth of the formal private sector. The majority of the working class was therefore thrust into the informal sector, where they survived on temporary contracts and precarious employment. By 2010, between 50 and 70 percent of the workforce in Arab Spring countries consisted of informal labor. These "disincorporated" masses lacked structural power; collective action was oriented around kinship and neighborhood, not class-based organizations or national bodies. The resulting fragmentation meant that, when uprisings swept the region, the revolutionaries could not directly threaten elite power without taking up arms. Though the movement lacked formal leaders, an informal leadership emerged, comprised of middle- and upper-middle-class individuals who had been excluded by crony capitalist liberalization. Early on, these individuals were pivotal in giving the movements a liberal orientation. Later, as their liberal ideas became discredited, Islamists and strongmen won mass support. Ultimately, the manner in which the Arab regimes had forged the social contract, and the manner in which neoliberalism had unraveled it, doomed the uprisings.

This article will provide a broad historical overview of the rise of the social contract across the countries of the Middle East and North Africa (MENA). It will then detail how the neoliberal turn undid this contract and restructured the Arab working class, which both propelled and doomed the uprisings. Finally, it will examine these dynamics in depth through an analysis of the Syrian and Tunisian revolutions.

THE ARAB SOCIAL CONTRACT

In the 1950s, after decades of colonialism, a series of liberal oligarchies took power across the Arab world. In Syria, elite agricultural and merchant families formed the People's Party, which led the post-Mandate government and won the 1954 elections, the first truly free polls in the Arab world. The People's Party advocated closer ties with the West and robust personal freedoms, but opposed calls for serious land reform, in keeping with their class interests. In Egypt, leadership of the nationalist Wafd Party represented an alliance between the urban middle class and the landed aristocracy. The Wafd called for full political rights but were wary of land reform. In Tunisia, the most powerful constituency within the ruling Neo-Destour Party was the large landowners of the Sahel region.

In the end, the liberals' unwillingness to address class demands proved their undoing, creating an opening to their left. Many countries witnessed mass political mobilization, the rise of peasant and worker movements, and explosive strike waves. By the 1950s, for example, a third of all workers in Egypt and Tunisia were unionized. For the first time, the masses were directly contesting national politics, usually through left-wing parties. In southern Yemen, the Aden Trade Union Congress became a leading force in the independence movement against the British, and subsequently in the People's Democratic Republic of Yemen. In Egypt and Syria, Arab nationalists aligned with Gemal 'Abd al-Nasser seized power.

The new left-wing regimes sought to limit the power of capital. In Egypt, Nasser took a hammer to the landlord class; nearly 7.5 million people benefited from land reform, with 1.3 million peasants finally owning the land they tilled. His regime nationalized foreign firms and, most famously, seized the Suez Canal from the British. In Syria, more than a hundred firms were nationalized, and the state monopolized 70 percent of foreign trade. In Libya, Mu'ammar al-Gaddafi unveiled the principle *shuraka' la ujara'* — partners, not wage earners — and attempted to abolish the commodification of labor altogether through large-scale expropriation of the private sector. In Tunisia, Habib Bourguiba expropriated French companies and agricultural holdings. These regimes, which scholars usually describe as "populist authoritarian," pursued a broad program of wealth redistribution, commanded from above through dictatorial fiat. By subordinating capital to the needs of the nation, the populist authoritarian regimes prioritized redistribution over economic growth. In Egypt, for example, Nasser made university education virtually free and guaranteed government employment for all graduates. Millions of Egyptians ascended into the middle class. By 1969, the state was employing 60 percent of all university graduates, including two-thirds of all lawyers and 87 percent of all physicians.

These reforms placed an enormous financial burden on the state. The explosive growth of the public sector in Egypt, for example, diverted "scarce resources away from productive investment," writes Carrie Rosefsky Wickham, "ultimately eroding the state's resource base for further distribution." Added to this was the global slump of the early 1970s, exacerbated by the oil shock. By 1973, growth rates in Egypt had cooled, and inflation was soaring. The populist authoritarian regimes faced a dilemma: deepen extraction of capitalist profits to fund redistribution, or retreat from class conflict. The former would spark civil war, unless the regimes relied on mass mobilization from below in the form of strikes and protests — which Arab rulers wanted to avoid because, in their nationalist vision, they sought to minimize class struggle in the name of national unity.[2] So they opted for the latter and pursued a rapprochement with the private sector. In 1970, Hafez al-Assad overthrew the left wing of the Ba'ath Party in Syria and launched the "Corrective Movement," seeking to reconcile with

2 "Nasser refused to use the iron fist [to overturn capitalism], not because of signals from the countries of the core (they abounded) nor because of his class predilections, if he had any. Rather, his course was set by his very real unwillingness to sacrifice, as he put it, the present generation for those of the future and unleash potentially uncontrollable elements of class conflict." John Waterbury, *The Egypt of Nasser and Sadat: the Political Economy of Two Regimes* (Princeton: Princeton University Press, 1983).

the Sunni merchant class (especially in Damascus). Land reform was halted, and trade restrictions eased. That same year, Bourguiba moved against the left-wing leadership of the UGTT, the powerful trade union confederation in Tunisia, and appointed the pro-market liberal Hédi Nouira as prime minister. In 1974, Anwar Sadat announced the Infitah in Egypt, a policy of economic "openness" to attract private investment and reverse Nasserist policies.

By the mid-1970s, the era of left-wing Arab nationalism was finished.[3] This is usually chalked up to the Arab nationalists' defeat at the hands of Israel in 1967, but in fact, it was internal contradictions and structural reasons that forced these rulers to halt radical extractive measures and reengage the bourgeoisie. Yet it would be a mistake to call the resulting regimes capitalist; the state developed into a body with its own bureaucratic interests, as against all other sectors and classes in society, which some scholars call "bureaucratic authoritarianism."[4] (See Figure 1.) They managed a balancing act between the classes by alleviating the extractive pressure on the private sector while using exogenous revenue to maintain redistribution. Syria relied on Soviet aid and oil rents, which afforded the regime a measure of independence. Egypt and Tunisia, on the other hand, resorted to taking on large amounts of Western debt. This exposed them to the designs of the

3 The exception was Libya; due to oil rents, they were able to maintain redistribution and subordinate the capitalist class — which was very small to begin with.

4 Some authors treat the post-1970s Arab regimes as bureaucratic authoritarian; see, for example, Leonard Binder, *Islamic Liberalism: A Critique of Development Ideologies* (Chicago: University of Chicago Press, 1988), 14, 16, 268; Waterbury, *The Egypt of Nasser and Sadat*, Ch. 1. Others refer to the pre- and post-1970s regimes as populist authoritarian; e.g., Raymond Hinnebusch, *Syria: Revolution From Above* (London: Routledge, 2001). The concept of bureaucratic authoritarianism was developed in the Latin American context to refer to a form of state development that seeks to deepen industrialization through an alliance with domestic and foreign capital; here, I am adapting the term for the Middle Eastern context to emphasize the state's autonomy and its modus vivendi with capital.

Figure 1.

Regime Type	Features	Syria	Tunisia	Egypt	Libya
Oligarchy (Liberal or Monarchial)	Severe inequality; pro-West and pro-market orientation	1946–1958	1952–1956	1922–1952	1951–1969
Populist Authoritarian	Radical extraction from private sector; redistribution; power of capital curtailed	1958–1970	1961–1970	1962–1970	1970–1987
Bureaucratic Authoritarian	Moderate extraction; reconciliation with private sector; debt and oil rents maintain class balance	1946–1958	1970–1987	1974–1991	1987–2002
Neoliberal Authoritarian	Rise of new state bourgeoisie; radical extraction from popular classes; integration into the world market	2000–present	1987–2011	1991–present	2002–present

International Monetary Fund (IMF) and World Bank, which pressed them to slash redistribution. But attempts at radical liberalization failed — Sadat, for example, was forced to scrap a proposed subsidy after riots broke out in 1977. Instead, the regimes pursued reforms with great caution.[5] As a result, while sectors of the Egyptian and Tunisian economies were opened to private capital through the 1970s and 1980s, the social safety net remained in place.[6]

Millions of working people continued to benefit from subsidies, free education and health care, guaranteed state employment,

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5 For example, Sadat was unable to end Nasser's guaranteed employment scheme, which was placing strain on the state budget, so the state increased the waiting period for new graduates to obtain a public-sector job.

6 Of course, this dynamic was not unique to the Middle East but featured across the Global South. In the Middle East, however, state autonomy was perhaps greater, and the efforts to constrain the private sector through a balancing act more ambitious, than elsewhere.

cheap credit, and price controls on inputs and outputs in the agricultural sector. Such programs, together with oil remittances, achieved remarkable results. By the end of the 1980s, the MENA region had the lowest poverty rate in the developing world, with only 2 percent of the population living below $1 per day. Inequality, similarly, was far lower in MENA than in comparable regions.[7] MENA led the developing world in access to health and education.[8]

Despite these benefits, the masses enjoyed almost no political rights; this provision of a safety net in exchange for surrendering political freedom is the great social contract that underpinned Arab regimes: torture chambers and butter. There were no elections, no free press, no opposition parties, no independent judiciary, no independent unions, and no right to strike. By shielding the poorest citizens from the violence of the market, the dictatorships exposed their populations to the naked violence of the political order.

Yet the social contract was not simply a trade-off between desirable ends. In fact, the contract was a means through which people could improve their lot *and*, in a limited manner, represent their interests at the state level — just not in the way interests are represented in democracies. Understanding the structure of the social contract is crucial to explaining how neoliberalism unraveled it and shaped the ensuing revolutions.

Corporatism

In order to mobilize society around nationalist and anti-imperialist causes, the Arab regimes viewed the contradictory "internal"

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7 Richard H. Adams Jr and John Page, "Poverty, Inequality and Growth in Selected Middle East and North Africa Countries, 1980–2000," *World Development* 31, no. 12 (2003): 2027–48.

8 Farrukh Iqbal and Youssouf Kiendrebeogo, "The Determinants of Child Mortality Reduction in the Middle East and North Africa," *Middle East Development Journal* 8, no. 2 (2016): 230–47.

interests of society, such as those of labor and capital, as secondary to, and possibly distracting from, the development of the Arab nation. The Arab nationalists agreed with the communists that workers and employers constituted distinct interest groups, but they believed this contradiction should be resolved through direct negotiation, mediated by the state. In other words, the Arab nationalists viewed the various interest groups in society as necessary components of the body politic, a veritable corpus, that were ultimately united in the goal of national development. Whether consciously or not, these regimes were drawing from the tradition of corporatism.

Corporatism developed in the late nineteenth century among the Catholic intelligentsia in Italy as an alternative to socialism, a means of improving the lot of the working class without threatening private property. In its original formulation, the corporatists viewed society as consisting of discrete interest groups — such as workers, employers, lawyers, the clergy, and parties — that settled differences through bargaining and negotiation. As it developed in practice, the state became the arena through which such disputes were settled, ultimately leading all interest groups to be incorporated into the state itself. In his classic exposition, Philippe C. Schmitter writes that[9]

> Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.

9 Philippe C. Schmitter, "Still the Century of Corporatism?" *The Review of Politics* 36, no. 1 (1974): 85–131.

By incorporating unions and political parties into the state, corporatism effectively destroys any independent organization in society, including those of the working class. So it's not surprising that corporatism is closely associated with Benito Mussolini and Adolf Hitler — we might view it as the sociopolitical organization of classical fascism. It was also the primary means through which the populist and bureaucratic authoritarian Arab regimes ruled. The Arab state, represented by a single party, mediated between various "functional" groups in society, each supposedly with its own distinct interests — peasants, teachers, lawyers, industrial workers, women, and so on. Class stratification within these groups did not determine their function, at least on paper: the agricultural cooperative represented the interests of rich and poor peasants; the women's organization represented everyone from female industrial workers to housewives. Under this system, solidarities on any basis except those of the functional groups were, by definition, *against* those groups, and therefore against the national interest. Any attempt at political or economic activity not conducted through these channels was, ipso facto, illegitimate. Hence strikes were severely curtailed or outlawed, and union membership was carefully controlled. In Syria, for example, all unions were merged into the General Federation of Trade Unions, which itself was adjoined to the General Union of Peasants, the Revolutionary Youth Union, and an assortment of leftist parties to form the state-controlled National Progressive Front.

The limits on the right to strike or pursue independent collective bargaining benefited employers, but at the same time, state ministries fixed wages and controlled private industry's ability to discipline workers. In this sense, the working class lost collective power in exchange for a broad redistributive program that partially decommodified labor and offered protections from the market. In addition to this economic trade-off, the social contract consisted of an important political trade-off. When Arab nationalist corporatism eliminated all democratic rights, it wasn't merely a mechanism of fragmentation and control; by replacing horizontal ties of solidarity and collective action with vertical ties to the state, the corporatist regimes actually created a new form of interest representation. On the one hand, corporatist structures were means for the state to control popular activity, stifle dissent, and channel interest group rivalries in a manner concordant with the bureaucratic interests of the state. But on the other hand, membership in a corporate body allowed individuals and communities to tap into patronage networks and even, under some circumstances, influence policy. For example, as peasants joined state-managed agricultural cooperatives, the village became linked to the center as never before. The state would set prices but would face direct and indirect pressure from various quarters: the peasants' union, agricultural ministry employees, party bosses. A ministry employee might push for a crop rotation schedule more favorable to his home village; a party official might cajole the agricultural bank to offer cheaper credit to her family's area. "When individuals [moved] up in the national power structure," writes Raymond Hinnebusch about Syria, they "used their position to help out kin in the village."[10] The same applied in the urban sphere: workers from a given community might succeed in pushing one of their own onto an industrial labor-relations body. A shop steward at a plant might manage to sit on a corporate board and might push for a greater share of profits to his local. A teacher would join the national party to get a choice posting. This manner of using personal connections for goods and services is best described by the Arabic term *wasta*. While it is usually viewed as a form of corruption, *wasta* was a feature, not a bug, of the corporatist regime, and it served

10 Hinnebusch, *Revolution*, 121.

to cement the social contract by offering social mobility and a means of influencing policy. In other words, despite the lack of formal political freedoms, popular sectors could contend for their interests — albeit in a very attenuated form — through representation in corporate structures. In this way, as Hinnebusch points out, "patronage was 'democratized' at the local level as public goods were diverted and laws bent to favor locals."[11]

In this sense, the social contract was not merely the exchange of political rights for economic protections, as most authors argue. Instead, it was a complex trade-off between various social and political resources: by surrendering independent collective organization and formal political rights, the masses were given some protection from the market and a means of interest representation through patronage networks. The latter proved especially valuable as a vehicle of upward mobility.[12] Millions of poor people ascended into the middle class as they took jobs as government employees, for which *wasta* was crucial. It was this upwardly mobile layer that generally formed the social base of the bureaucratic authoritarian regimes.

THE NEOLIBERAL TURN

The core element of the social contract was redistribution, which ultimately depended on revenue. So long as the bureaucratic authoritarian regimes could fund redistribution exogenously — without extracting from the domestic private sector — they could maintain the delicate balance between the bourgeoisie and the popular sphere. In Syria, for example, foreign aid in 1979 accounted

11 Hinnebusch, *Revolution*, 121.

12 Corporatist rule was the model deployed in one-party states across the Global South; for a comparison of Juan Perón to Nasser, for example, see Robert Bianchi, *Unruly Corporatism: Associational Life in Twentieth-Century Egypt* (Oxford: Oxford University Press, 1989), 27–8.

for 40.9 percent of state revenue.[13] In 1985, only 1.3 percent of state revenue derived from income taxes, and 10 percent from customs duties, with the rest coming from oil and foreign aid. Across MENA, non-rentier revenue accounted for just 16 percent of state coffers, compared to nearly 26 percent in sub-Saharan African states.[14] This is an inherently unstable approach: rents are fickle, and debt mounts rapidly. Sooner or later, something would have to give.

In the Middle East, the spark that collapsed this house of cards was hydrocarbons. In the 1980s, oil prices came crashing down from the heady heights of the previous decade; between 1981 and 1986, the price of a barrel of crude fell by nearly two-thirds. This immediately impacted rentier states like Libya, which became one of the first MENA countries to attempt neoliberal reforms. It also indirectly affected non-oil-exporting countries because the tapering flow of migrant labor squeezed remittances. The expanded domestic labor pool put pressure on state employment programs, leading to increased unemployment and underemployment; countries with guaranteed state employment faced a public-sector wage bill that was rising at an alarming rate. The anemic private sector was an insufficient tax base for redistribution; technological advances on the international market were exerting downward pressure on domestic labor productivity. Investment plummeted: by the late 1980s, growth in physical capital per worker across the region had fallen by three-quarters from the previous decade.[15]

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13 Giacomo Luciani, "Allocation vs. Production States: A Theoretical Framework," in Giacomo Luciani, ed., *The Arab State* (Berkeley: University of California Press, 1990), 65–84.

14 Leonard Robinson, "Rentierism and Foreign Policy in Syria," *The Arab Studies Journal* 4, no. 1 (Spring 1996), 34–54.

15 Tarik M. Yousef, "Employment, Development and the Social Contract in the Middle East and North Africa," World Bank (Washington, DC, 2004).

Confronted with this crisis, some regimes simply attempted to borrow more — but this spawned a spiraling debt crisis, exacerbated by the credit crunch following Mexico's default in 1982. As Adam Hanieh explains,[16]

> By the mid-1980s, Algeria, Egypt, Jordan, Morocco, and Tunisia were paying 30–65 percent of their entire export earnings just to service their debt. At the same time, new loans had to be taken on in order to keep afloat, and so overall debt stock actually rose despite the continual outflows of debt service. In other words, indebtedness increased each year in tandem with growing debt and interest repayments. Debt thus represented an ever-escalating drain of wealth from the Arab region to the richest financial institutions in the world.

Other regimes clung to the hope of foreign aid until that, too, disappeared. For example, Syria had avoided the debt cycle by relying on Soviet aid and oil rents, but the 1980s oil glut and 1991 Soviet collapse made continuing this course impossible.

The bureaucratic authoritarian regimes were facing a similar choice to that of their populist predecessors two decades earlier: remove the fetters to private capital accumulation or pursue radical extraction — only this time, the balancing act was no longer possible. Beginning in the late 1980s and accelerating thereafter, nearly every non-OPEC country in MENA turned decisively away from the redistributive programs that underwrote the social contract, and embraced various forms of neoliberalism.

Countries firmly under the boot of the international financial institutions followed the typical recipe of structural adjustment. Egypt, for example, pledged to increase sales tax, remove tariffs, and slash subsidies. Various public-sector firms were privatized,

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16 Adam Hanieh, *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East* (Chicago: Haymarket, 2013).

and hundreds of thousands of workers were laid off. Nasser's guaranteed employment scheme for university graduates was finally abolished. Meanwhile, countries that had avoided the World Bank and IMF, like Syria, embarked upon such adjustments on their own. The first tentative steps came in 1991, with Investment Law No. 10, which granted tax holidays to corporations, waived import duties, opened access to hard currency, and flattened income tax rates. Upon inheriting power in 2000, Bashar al-Assad turned up the dial through widespread privatization. Even services that were not privatized, like education, suffered declining quality as teachers were wildly underpaid and absenteeism soared.[17]

Elite Realignment

The balancing act was finished, but this did not mean the state could simply untie the private sector's hands and step aside; uncontrolled liberalization could embolden the capitalist class and threaten the regimes' rule. The neoliberal turn was therefore not merely an opening to the market, it was a fundamental restructuring of class relations in Arab societies. Neoliberalism produced a *new* bourgeoisie, forged from elements of the state and sections of the preexisting private sector. From the perspective of the state, the only way to ensure that liberalization did not threaten elite rule was to become capitalists themselves. From the perspective of the private sector, on the other hand, neoliberalism produced winners and losers: those who possessed strong links with the ruling clique struck riches, whereas those who did not

17 One survey found that "the percentage of people dissatisfied with the availability of affordable housing rose most dramatically prior to the Arab Spring uprisings, but there was also increase in the incidence of people dissatisfied with public transportation, quality healthcare, and availability of quality jobs." See Shantayanan Devarajan and Elena Ianchovichina, "A Broken Social Contract, Not High Inequality, Led to the Arab Spring." *Review of Income and Wealth* 64 (2018): S5–S25.

found themselves on the outside, looking in. In other words, neoliberalism produced a split within the private sector, a realignment that, like the unraveling of the social contract, helped determine the course of the Arab Spring.

In practice, the private-sector split resulted from a segmentation in profitability. Those firms tied by family or friendship to the ruling elites received preferential access to markets, a phenomenon usually described as "crony capitalism." One study found that politically connected Egyptian firms had greater access to credit and greater market share than unconnected firms, controlling for sector size and other variables.[18] Regime-linked firms had a debt-to-equity ratio about 108.3 points higher than independent ones, far surpassing firms in other countries notorious for corruption. Between 2004 and 2010, debt-to-equity ratios of connected firms increased by 43 percent, while those of non-connected companies declined by 55 percent — as a result, 74 percent of all corporate debt in this period accrued to firms connected to the regime. Since the banking sector is liberalized, banks were lending to regime-linked firms simply because it was more profitable, and the regime connections effectively acted as collateral against the loans. Similarly, regime-linked firms commanded an extra market share of about 8 percent over non-linked firms, again a relatively high figure compared to other countries where crony capitalism is a feature.

In Tunisia, Zine El 'Abidine Ben Ali's family owned nearly 400 firms, 367 bank accounts, 550 properties, and 48 stock portfolios.[19] These assets were valued at $13 billion, a full quarter of the country's GDP in 2011. Ben Ali firms represented 1 percent of

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18 Hamouda Chekir and Ishac Diwan, "Crony Capitalism in Egypt," *Journal of Globalization and Development* 5, no. 2 (2014): 177–211.

19 Antonio Nucifora, Bob Rijkers, and Bernard Funck, "The Unfinished Revolution: Bringing Opportunity, Good Jobs and Greater Wealth to all Tunisians," *Developmental Policy Review*, World Bank (Washington, DC, 2014).

employment and 3 percent of national output, but they earned 21.3 percent of all net private-sector profits.[20] Some of these holdings came from fire-sale privatizations in the public sector, but much of them belonged to heavily regulated segments of the private sector. This brand of neoliberalism meant keeping a facade of regulations, thereby restricting market access to non-regime-linked bourgeoisie, while exposing the poor and working class to the market by slashing welfare provisions. The family monopolized air and sea transport, telecommunications, banking, real estate, and the service sector, so that without ties to the rulers, it was impossible to circumvent state regulations. As a result, sections of the bourgeoisie found it very difficult to compete.[21] For example, in the Bir Kassaa wholesale market, traders required regime connections to circumvent the 36 percent import duty on bananas. Tunisia does not produce bananas, meaning the tariff existed solely to protect the market for regime-linked firms.[22]

In Yemen, Ali Abdullah Saleh came to power in 1977 on the basis of a power-sharing arrangement with key figures in the Hashid tribal confederation in the north; Saleh would occupy the presidency in Sana'a while Hashid tribal sheikhs and military commanders would be free to run fiefdoms in their areas. In time, Saleh used oil revenues to incorporate regional elites from around the country into a pyramid of patronage. In this system, control over the state sector became a means of distributing patronage and amassing private-sector wealth; for example, Hashid elites developed networks inside the Yemen Economic Corporation (YECO), a parastatal military procurement body that was active in real

20 Bob Rijkers, Caroline Freund, and Antonio Nucifora, "All in the Family: State Capture in Tunisia," World Bank (Washington, DC, 2014).

21 Devarajan and Ianchovichina, "Broken Social Contract."

22 Nucifora et al., "Unfinished Revolution," 119.

estate, oil and gas, construction, tourism, and other industries. But during the mid-2000s liberalization, technocrats linked to Saleh's son established a holding company, with World Bank support, and seized vast tracts of YECO's land. This move, and many like it, cut into the profits of Hashid elites and drove a wedge between them and the Saleh family. Saleh's sons and nephews also took control of the presidential guard and the intelligence agency — through which they accrued millions of dollars in "political rents" from Washington's War on Terror. In other words, Saleh's immediately family benefited disproportionately from liberalization and the War on Terror, threatening the interests of rival Hashid elites. When the revolution erupted in 2011, Yemen's elite coalition split: the Hashid chieftain Hamid al-Ahmar funded Change Square, the main protest camp in the capital, and another leading Hashid figure, general Ali Mohsen al-Ahmar, defected with a chunk of the armed forces, laying the seeds for civil war.[23]

Restructuring

The neoliberal turn stemmed from the same pressures that produced the rapprochement between the state and private capital in the early 1970s. This time, however, the regimes could not rely on aid and debt to keep redistributive programs afloat, leading them to dismantle the social contract and restructure the working class. While MENA countries generally did not deindustrialize, globalization kept the manufacturing sector stagnant, and most new jobs appeared in the service industry (Figure 2). The most striking structural transformations, though, occurred in agriculture and the public sector. Agricultural cooperatives were disbanded and state farms privatized. In Syria, for example, the total surface

23 For more on these elite splits, see, for example: Peter Salisbury, "Yemen's Economy: Oil, Imports and Elites" (London: Chatham House, 2011).

area of state-owned farms plunged by 50 percent between 1970 and 2000.[24] And in 2000, public ownership of land was abolished altogether; through politicking and subterfuge, regime-connected elites scooped up the bulk of the distributed land. Effectively, the Ba'athist land reforms of the 1960s were reversed, creating a new landed elite presiding over vast latifundia. In Egypt, a similar process took place, with agribusinesses scooping up much of the land. These privatizations, together with various urbanization policies, drove millions off the land to settle in shantytowns or become migrant laborers.

Figure 3 shows the decline in the agricultural workforce; the formal private sector was unable to absorb these jobs — one reason that pre-2011 MENA had the highest rate of unemployment in the Global South. Because major industries were monopolized by the new state-linked bourgeoisie, small businesses were unable to grow or compete on the market. In Egypt and Tunisia, for example, start-ups were unable to expand into midsize firms, and within ten years, 95 percent had shut down.[25] One study found that in Egypt, the rate of job creation fell by 1.4 percent when a regime-linked firm entered a sector.[26]

With a rapidly dwindling public sector, the privatization of agriculture, and a private sector unable to absorb new entrants to the labor market, the majority of the working class found little alternative to precarious work in the informal sector. Figure 4

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24 Myriam Ababsa, "The End of a World: Drought and Agrarian Transformation in Northeast Syria (2007–2010)," in Raymond Hinnebusch and Tina Zintl, eds., *Syria from Reform to Revolt: Political Economy and International Relations* (Syracuse: Syracuse University Press, 2014), 213.

25 Devarajan and Ianchovichina, "Broken Social Contract," S21.

26 Hania Sahnoun, Philip Keefer, Marc Schiffbauer, Abdoulaye Sy, and Sahar Hussain, "Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa," World Bank (Washington, DC, 2014).

Figure 2. % of Workforce Employed in Service Sector

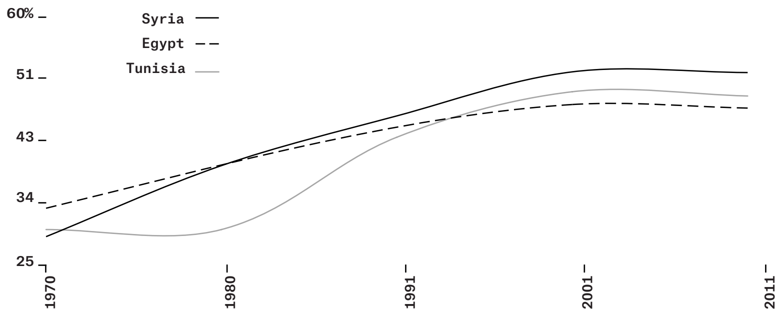
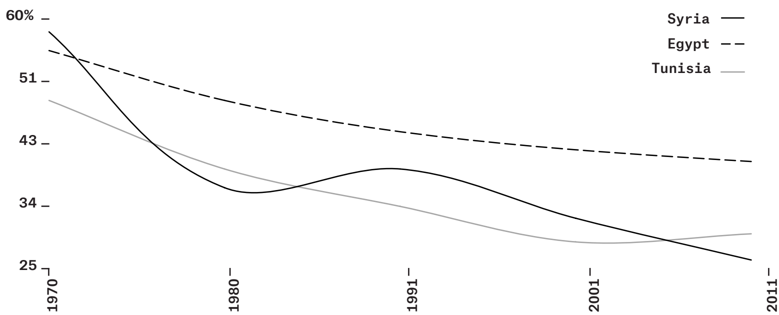


Figure 3: % of Workforce Employed in Agriculture



shows this phenomenon in Egypt: in 1971, nearly 90 percent of new workers entered the public sector, but by 1997, only 19 percent did. Instead, nearly 70 percent of new workers that year joined the informal economy. The proportion of the workforce engaged in informal labor in other Arab Spring countries is similar: 71 percent in Syria, 91 percent in Yemen, and 50 percent in Tunisia.[27] Most of

27 Roberta Gatti, Diego F. Angel-Urdinola, Joana Silva, and Andras Bodor, "Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa Region," World Bank (Washington, DC, 2011); Jackline Wahba, "The Impact of Labor Market Reforms on Informality in Egypt: Gender and Work in the MENA Region," Population Council Working Papers (2009); Yousef et al., "Employment"; Jackline Wahba and May Moktar, "Informalization of Labor in Egypt," in Ragui Assaad, ed., *The Labor Market in a Reforming Economy: Egypt in the 1990s* (Cairo:

these workers have not moved into the formal sector, meaning that precariousness is the permanent state of being for the majority of the working class in these countries.[28]

The consequences for working-class living standards were devastating. Those hailing from middle-income families — white-collar state employees — experienced dwindling income. Many in this downwardly mobile layer were university-educated but could not land a job commensurate with their degree. Life in the informal sector meant recurring periods without work, and much time spent queuing, knocking on doors, and waiting in muster zones. Under such conditions, women began to drop out of the workforce — one reason why today, fewer women participate in the labor market in MENA than anywhere in the world.[29]

For the poorest sections of the working class, on the other hand, the situation was more complex. These workers had previously belonged to the agricultural sector, but upon getting thrown off the land, they moved abroad as migrant laborers. They often earned more in places like the Gulf than they had back home in the fields, so that the mean income for this group actually increased. The net result was a flattening of the working class as a whole, where everyone — poor and middle-income alike — now experienced similar working conditions and living standards, regardless of education.

By privatizing agriculture and slashing public employment, the liberalizing regimes overturned the corporatist arrangement that had been the bedrock of the social contract for forty years. The newly precarious working class was, therefore, "disincorporated." This had four important consequences for the shape of

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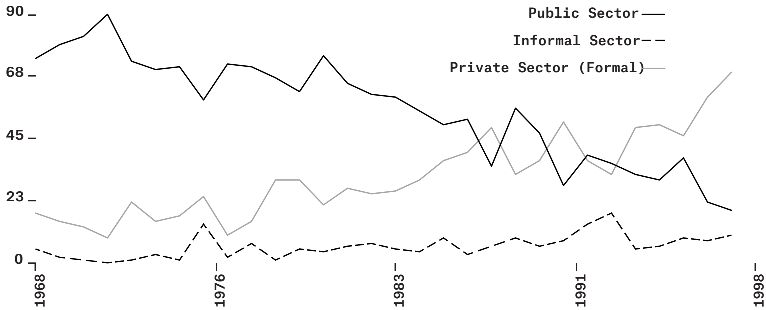
American University in Cairo Press, 2002).

28 Diego F. Angel-Urdinola and Kimie Tanabe, "Micro-Determinants of Informal Employment in the Middle East and North Africa Region," World Bank (Washington, DC, 2012).

29 Gatti et al., "Striving"; Devarajan and Ianchovichina, "Broken."

Figure 4. Proportion of Labor Market Entrants by Sector: Egypt



Source: Adapted from Jackline Wahba and May Moktar, "Informalization of Labor in Egypt," in Ragui Assaad, ed., The Labor Market in a Reforming Economy: Egypt in the 1990s. (Cairo: American University in Cairo Press, 2002).

things to come. First, recall that corporate bodies like agricultural cooperatives and teacher syndicates were a means of interest representation. On a communal level, it was a way for villages, tribes, and workplaces to influence policy. On an individual level, these bodies were the primary way, through *wasta*, that middle-income workers found jobs or evaded the capricious behavior of ruling institutions like the courts. The disarticulation of corporate bodies, therefore, also represented the privatization of *wasta*. New entrants to the job market no longer had a means of using regime connections to secure employment or protect against a rapacious police force.

The second consequence was that the disincorporated working class lacked the structural power to overturn the system in which they were trapped. René Rojas writes that structural power[30]

> [C]omes from the leverage that ordinary people might enjoy owing to their positions in institutions valued by elites. Unlike

30 René Rojas, "The Latin American Left's Shifting Tides," *Catalyst* 2, no. 2 (Summer 2018).

mobilizational capacities that must be *built up*, structural leverage is *built in* to subaltern sectors' position in the economy. The key to it is the fact that ruling classes rely on working people's labor as the source of their own wealth and income. When workers or peasants withhold this labor, it imposes intolerable costs on economic elites, and this becomes a lever for extracting concessions from power centers. The mere refusal to participate in routine tasks and activities threatens to undermine ruling-class power. The more workers and the poor are integrated into institutions that produce value for ruling classes, the higher their potential structural leverage.

In the Global North, the ability of workers in key sectors like manufacturing and mining to threaten elite interests was pivotal to winning democratic reforms.[31] In MENA, given the historical dominance of state employment as compared to manufacturing, the Arab working class's structural power was never great to begin with. But under neoliberalism, it was less than ever.

Third, disincorporation increases the hurdles to collective action on the basis of class. The precarious nature of employment, and the shifting nature of work, mean that it is more difficult to coordinate work stoppages. The challenge is temporospatial: workers may not be on the job long enough to organize successful campaigns, nor are they concentrated in a given industry for sufficient time. (Compare them to workers in industries with high structural leverage, such as mining, who have historically played an important role in democratization.[32]) Therefore, disincorporation makes basic elements of collective action, such as coordination, difficult. In other words, disincorporation acts as a powerful

31 Adaner Usmani, "Democracy and the Class Struggle," *American Journal of Sociology* 124, no. 3 (2018): 664–704.

32 Usmani, "Democracy."

constraint on class formation. Without the means to organize collectively around the conditions of their destitution, people are less likely to conceive of themselves as a class.

Instead, opposition to the regimes took on a territorial logic. This is the fourth consequence of disincorporation and, paradoxically, it stems from the nature of the corporatist order itself. Corporatist regimes failed in inculcating a nationwide *esprit de corps*; instead, by organizing society into corporate bodies that were vehicles for patronage and local interest articulation, they encouraged a logic of territoriality. A peasant who joined an agricultural cooperative might secure cheaper credit if her cousin was a member of the ruling party or her neighbor had a position in the agricultural bank. These regimes severed horizontal ties among the population and promoted vertical ties among individuals, their kin, and the state. When the vertical ties, too, were severed in the process of disincorporation, all that remained were hyperlocal ties.

THE ARAB REVOLUTIONS

With these structural transformations in mind, we can begin to understand the 2011 Arab revolutions. Broadly speaking, two segments of society — the marginalized bourgeoisie and the disincorporated working class — formed the social base of the revolutions. The former, which includes the petite bourgeoisie, dominated the uprisings ideologically, especially in the early stages, simply because their resources allowed them to do so. The latter, meanwhile, made up the bulk of the protesters. The bourgeois and upper-middle-income revolutionaries articulated a liberal program based on political democracy, while carefully avoiding anything that smacked of social equality.

The revolutions consisted of fragmented, atomized mass movements without organic political parties or even the basis to create them. Party formation requires dense social ties between unrelated people, as well as a variety of cultural and institutional resources that take years to build. But during the Arab uprisings, the revolutionary leaders viewed politics through the lens of international human rights discourse — a doctrine closely linked to neoliberalism that emphasizes political rights and ignores economic ones.[33] Human rights discourse sees politics as making appeals to an imagined global community; it is a moral language that favors benevolent action by the global elite over self-emancipation. The revolutionary masses did not take up these ideas simply because it was in the interests of the liberal leadership, but because any other politics was unthinkable under the conditions of neoliberal fragmentation, privatization, and disincorporation.

The revolutionary forces organized against the regimes using a territorial logic — again, as an outcome of the structural transformations that disincorporation wrought. In Egypt, this logic manifested in the occupation of Tahrir Square, a tactic we should understand as a weakness, not a strength, of the uprising. It was not the occupation of Tahrir, which the regime was prepared to wait out, that toppled Hosni Mubarak, but workers' strikes in the textile mills of the city of El Mahalla and elsewhere — among the few pockets of the working class with structural power — that turned the army against him. In Syria, the territorial logic manifested in a fragmented, alphabet-soup opposition, featuring more than one thousand armed factions and hundreds of protest groups, called Local Coordinating Committees. The factions and committees were territorially limited, and few managed to stitch themselves into anything resembling a national opposition. The

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33 See Jessica Whyte, *The Morals of the Market: Human Rights and the Rise of Neoliberalism* (London: Verso Books, 2019); and Samuel Moyn, *Not Enough: Human Rights in an Unequal World* (Cambridge: Harvard University Press, 2018). These authors disagree on the precise relationship between neoliberalism and human rights.

Syrian opposition was divided not because its leadership lacked the right strategy or the political will to unify, but because the structural preconditions for rapid unification were simply not present.

As transitions to democracy, the revolutions failed. One reason is because the bourgeoisie was divided; these were not the revolutions of old, pitting one class against another. The leading elements of the bourgeoisie had a stake in the survival of the dictatorships, leaving those without leverage, such as marginalized businesspeople and the middle class, to push for democratization. A second, more important reason is that while the revolutionary forces were able to topple heads of state, they lacked the structural power to overturn entire systems of rule. Egypt's labor action was limited to the overthrow of Mubarak. Broader mobilization to topple the military was not possible because the most revolutionary forces — that is, those who were calling for an overthrow of the state itself — were also those with the least structural power. The same was the case in Yemen, where the Gulf Cooperation Council orchestrated a transfer of power to 'Abd Rabbuh Mansur Hadi, an old regime official, without addressing the elite divisions. Though ordinary Yemenis had the greatest interest in an elite bargain, they were also the most informalized working class in MENA, so they held the least structural leverage over the transition process. Attempts at transition failed, too, in Libya, where the majority of the working class had been state employees; after neoliberalization and disincorporation, territorialism and kinship became the main modes of collective action.

THE SYRIAN CASE: REVOLUTION AND COUNTERREVOLUTION

The Syrian revolution went much further than all Arab Spring countries except Tunisia in overturning the old order, until it spiraled into a devastating proxy war. A closer look at Syria will illustrate the broader transformations the region has undergone in the past forty years.

Syria emerged from Ottoman rule a deeply unequal country, saddled with corruption and reeling from the injustices of World War I. Urban merchants and tribal sheikhs had amassed riches while most peasants toiled in near slavery — indeed, actual slavery was not abolished until the 1950s. In the vast steppes of eastern Syria abutting the Euphrates River, just forty chieftains and town notables owned 90 percent of all land.[34] When the world powers imposed the Mandate in 1920, the French attempted to co-opt this elite, but with only partial success at first. The Mandate administration was forced to quell numerous nationalist uprisings, culminating in the Great Revolt of 1925–27, which the French savagely repressed with little regard for rebel or civilian life.

Yet at the same time, nationalist leaders adapted elements of French-style liberalism. The flag-bearers of this movement included the National Bloc, a nationalist alliance of merchants and landed families who had commanded extraordinary wealth during the Ottoman years. The Bloc and similar groupings championed democratic elections, secularism, and personal freedoms, but they eschewed questions of economic justice, carefully projecting anti-colonial politics in a way that did not threaten their class interests. They led Syria from its independence in 1946, shepherding the country's "liberal oligarchic" phase, just as similar formations were in power around MENA. The watershed moment came with the parliamentary elections of 1954, hailed as the "first free elections of the Arab world."[35] The polls marked the emergence of political

34 Myriam Ababsa, "Agriculture and Reform in Syria," *Syria Studies* 3, no. 1 (2011): 1–79; Bichara Khader, *La Question Agraire dans les Pays Arabes: Le Cas de la Syrie* (Louvain: Ciaco Editeur, 1984).

35 Patrick Seale, The Struggle for Syria: A Study of Post-War Arab Politics, 1945–1958 (London: IB Tauris & Company, 1965).

parties such as the Muslim Brotherhood and the Syrian Social Nationalist Party on the Right, and the Ba'ath and the Communist parties on the Left. But it was the centrist liberals who carried the day, winning forty-nine seats — more than double their nearest competitor, the Ba'athists.[36]

Syria was poised to become the Arab world's first successful democracy. Under Article 15 of the 1950 constitution, which guaranteed freedom of press, the Syrian landscape bloomed with new periodicals. Kevin W. Martin writes,

> Along with a plethora of specialty journals published by Syrian government agencies, foreign embassies, private corporations, educational and religious institutions, and professional associations, literate Syrians could choose from a remarkable range of conventional news and entertainment periodicals. In Damascus alone, at least twenty-nine different titles appeared as daily newspapers between 1954 and 1958.[37]

Student associations and professional syndicates began to appear, and workers were now forming unions. In the countryside, for the first time, peasants began organizing against their wretched conditions.

Yet this democratic experiment soon unraveled. The centrists, comprised of wealthy merchants and landed elites, harbored little desire to tackle the extreme inequities marring Syrian life: during this period, 0.03 percent of the population owned nearly a third of all land.[38] By refusing to address the class demands of the working class and the peasantry, they rapidly lost ground to the Left. The Arab Socialist Ba'ath Party, an Arab nationalist party

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36 Eyal Zisser, Asad's Legacy: Syria in Transition (New York: NYU Press, 2001).

37 Kevin W. Martin, Syria's Democratic Years: Citizens, Experts, and Media in the 1950s (Bloomington: Indiana University Press, 2015).

38 Khader, *La Question*.

comprised primarily of teachers and other middle-income professionals, placed the agrarian question at the center of their platform, leading peasant campaigns against rapacious landlords. At the same time, they organized within the armed forces, giving them a foothold within a sector of society that had enormous structural leverage. This middle-class-soldier-peasant alliance proved to be a recipe for spectacular success: in the 1949 constituent assembly election, the Ba'athists had captured just four seats to the liberals' seventy-six, but by 1954, they increased their vote fivefold.[39] That year, they had six thousand supporters countrywide — and thirty thousand by 1957.[40] In 1958, Arab nationalists politicked their way into engineering a union between Syria and Nasser's Egypt; Nasser promptly dissolved all political parties, outlawed strikes, and Syria's democratic moment was finished.

The Ba'athist Social Contract

Arab nationalists in Syria quickly realized that the union with Egypt was not on equal terms, and that Cairo was ultimately calling the shots. Splits emerged among the Left, with some elites seeking to repudiate the union. A carousel of coups ensued, until the Ba'athists finally seized control in 1963. Between 1958 and 1963, the various regimes had carried out four waves of land reform. Pre-reform, 50 percent of the population worked on massive latifundia, but post expropriation, 82.3 percent tilled small and medium plots.[41] In the northeast, Syria's breadbasket, 63 percent of all rain-fed and irrigated land was redistributed.[42] Woefully

39 Zisser, *Asad's Legacy*.

40 Hinnebusch, *Revolution*.

41 Raymond A. Hinnebusch, *Peasant and Bureaucracy in Ba'thist Syria: The Political Economy of Rural Development* (Boulder, CO: Westview Press, 1989).

42 Günter Meyer, "Rural Development and Migration in Northeast Syria," in Muneera Salem-Murdock and Michael M. Horowitz, eds., *Anthropology and Development in North Africa and the Middle East* (Boulder, CO: Westview Press, 1990):

inefficient and corrupt, land reform was nonetheless the centerpiece of Ba'athist policy, pulling millions out of poverty. Thus, through agrarian redistribution, the regime acquired a mass base.

The state organized this base through corporatist measures. Those who moved to the cities and took up government employment joined syndicates or the Ba'ath Party. In the countryside, meanwhile, any peasant receiving expropriated land was required to join a cooperative.[43] In each cooperative, the state determined the crops to be planted and agreed to buy the harvest at a fixed price. All other factors of production remained privatized, but the state agricultural bank offered credit below market rates. As a result, the peasantry was shielded from the market. By 1983, 85 percent of all families in the agricultural sector were incorporated.

The system successfully severed national, horizontal ties among the population based on ideology or profession, but it promoted localism. For example, due to limits on the size of single-family plots, a group of brothers or close friends might attempt, through exchanges, to obtain adjacent plots. They would then farm these plots as a de facto unit, combining resources and increasing efficiency. By pooling income, they might then purchase a tractor or acquire a truck to bring surplus crops to market. They might also rent the truck out as a taxi, or have their children pick up day work on other farms. Françoise Métral describes this approach in his case study of a cooperative in the Ghab Plain, north of Hama:[44]

> Such family strategies are organized around a double objective, diversifying sources of income and extending the family's network of relations so that they may in some way penetrate the

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245–78.

43 Hinnebusch, *Peasant and Bureaucracy*.

44 Françoise Métral, "State and Peasants in Syria: A Local View of a Government Irrigation Project," *Peasant Studies* 11.2 (1984): 69–89.

> system of state-run economic activities. If money is invested in the private sector to provide new sources of income, the family also tries here and there to place a son or a nephew in the Ghab Development Office of the Ministry of Agriculture. A second may be placed in teaching, a third in the army, etc. In fact, one must have prior authorization and some guarantees to invest in the private sector, to obtain raw materials, or to carry on any number of semi-clandestine activities. Administrative procedures are long, complicated and costly. To achieve the desired ends, they require "good relations" and some degree of protection.

Individuals became clientelistically linked to the state, while their networks of solidarity developed solely through kinship and neighborhood. Territoriality became, ironically, the logic of incorporation in the social contract.

Opposition to the Regime

It was, of course, the old moneyed classes who stood to lose the most from land reform and mass incorporation. Opposition arose among two sectors: the agrarian elite who'd slipped through land reform because their plots fell just under the expropriation ceiling, and the merchants based in the *souq*. The former were unconnected to the corporatist structures of the regime; as credit-worthy borrowers, they could obtain loans more cheaply on the market than through the agricultural banks, and the regime's redistributive program was an affront to their values and interests. The profits of the *souq* merchants, meanwhile, suffered due to competition from the state's monopoly on foreign trade and its subsidies of consumer goods. As early as the 1960s, these marginalized elites made common cause with the Muslim Brotherhood. The Brotherhood itself had been marginal in the 1950s — gaining just 3 percent of the seats in the 1954 election — but benefited from an influx of support from bourgeois families, enough so that they were able to stoke riots in the city of Hama in 1964.[45] This proved a warning sign: the populist authoritarian regime lacked the social forces necessary to fully dislodge the capitalist class. Hafez al-Assad grabbed power in 1970 and launched the "Corrective Movement," which sought a rapprochement with these elites. He partially succeeded: he struck an alliance with the Damascus bourgeoisie, but he could not come to terms with the old guard as a whole without sacrificing his base in the peasantry.

The result was a tenuous balancing act, and the marginalized capitalists seized the moment. In the late 1970s, the elite classes of Aleppo and Hama backed a Brotherhood-led insurgency.[46] But outside these two cities, the majority of the country was incorporated and had a stake in Ba'athist rule, as did the Damascene bourgeoisie. Assad was able to isolate and crush the uprising, resulting in the brutal denouement of 1982 in Hama, when the regime massacred tens of thousands of people. Assad won the war because the Brotherhood had failed to win the peasantry or unite the bourgeoisie. It would be precisely this relationship — between the regime and the incorporated masses — that neoliberalism would sever, so that when unrest erupted again, Assad the younger would not find things so easy.

The Neoliberal Turn

Because Hafez al-Assad's brand of bureaucratic authoritarianism had kept the private sector weaker in Syria than in most other MENA

45 Dara Conduit, *The Muslim Brotherhood in Syria* (Cambridge: Cambridge University Press, 2019).

46 Hanna Batatu, "Syria's Muslim Brethren," *Middle East Report* 110 (1982): 12–36.; Raphaël Lefèvre, *Ashes of Hama: The Muslim Brotherhood in Syria* (Oxford: Oxford University Press, 2013).

countries, the country's neoliberal turn sparked one of the deepest structural transformations in the Arab world. The oil crisis and fall of the Soviet Union prompted landmark Law 10 in 1991, which marked the regime's first serious liberalization measures (Figure 5). After fits and starts, which included an infusion of Gulf capital, foreign direct investment skyrocketed following the ascension of Bashar al-Assad to power in 2000 (Figure 6). He gutted the cooperative system, privatized state farms, and introduced private banking. In June 2005, the regime announced the so-called Social Market Economy, accelerating the pace of reforms to include liberalizing the currency, lifting import restrictions, and joining the Greater Arab Free Trade Area.[47] A free trade agreement with Turkey and China flooded the Syrian market with cheap foreign goods, undermining local manufacturing. All public-sector employment growth was halted. The regime slashed subsidies in fuel, seeds, and fertilizer. Inequality ballooned. By 2007, one-third of Syrians were living below the poverty line — more than double that of the previous decade.[48]

Through neoliberal restructuring, Syria transitioned from a Bonapartist-like balancing of classes to a full-fledged capitalist state. In the process, a new bourgeoisie was born from the state itself. Close links with this "state bourgeoisie" were crucial for capitalizing on the new world of profits opening up.[49] While the Sunni business class in Damascus had enjoyed such links since the 1970s, the Aleppine bourgeoisie finally reconciled with the new business-friendly order. Even as the state privatized and deregulated, the new bourgeoisie used state regulations and

47 Samer Abboud, "Locating the 'Social' in the Social Market Economy," in Hinnebusch and Zintl, *Syria from Reform to Revolt*, 46–66.

48 Khalid Abu-Ismail, Ali Abdel-Gadir, and Heba El-Laithy, "Poverty and Inequality in Syria (1997–2007)," *UNDP Arab Development Challenges Report* 15 (2011).

49 See, for example, Bassam Haddad, *Business Networks in Syria: The Political Economy of Authoritarian Resilience* (Stanford: Stanford University Press, 2011).

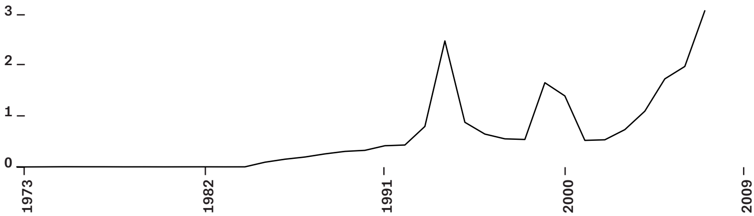
Figure 5.

Year	Law	Details
1991	Law No. 10	Tax holidays and duty-free imports for approved projects
2000	Decree No. 7	Greater legal protections for investors; right of appeal to Arab Investment Court
2000	Decree No. 83	Privatization of state farms
2001	Decree No. 28	Liberalization of the banking sector
2001	Decree No. 36	Privatization of colleges and universities
2004	Decree No. 48	Allowed private insurance
2006	Decree No. 55	Authorized creation of the Damascus Securities Exchange
2010	Decree No. 3	Allowed foreign majority ownership of banks

connections to control markets and block competitors. The losers in this shuffling of alliances were medium-size capitalists, especially traders, in outlying towns. This "provincial bourgeoisie," who hailed from marginalized parts of the country like Idlib and rural Aleppo, saw little of liberalization's benefits. Many of these merchant families had supported the Muslim Brotherhood in the 1980s; that organization was now liquidated inside Syria, but it left behind a tight-knit network of traders who were anti-regime in outlook and well-off in their communities, even if they were poor relative to the big-city capitalists.

The working class, meanwhile, was restructured just as in the rest of the Arab world. Figure 3 shows the decline in the agricultural labor force. The first wave of deruralization between 1970 and 1980 came as a result of a massive expansion in state employment in sectors like education, with millions of Syrians rising into the middle class. The second wave, however, resulted from privatization, which

Figure 6. Foreign Direct Investment in Syria as % of GDP



occurred just as public-sector employment was frozen. Millions of agricultural workers were thrust into the informal labor market; more than 32 percent of the population lived in shantytowns on the outskirts of big cities, crowded together in crumbling apartment buildings in areas like eastern Ghouta and east of Aleppo. University graduates fared little better: without corporate membership, they no longer had access to *wasta* to land scarce public-sector jobs. By 2004, inequality had risen by 11 percent compared to seven years earlier.[50] In 2008, the global economy crashed, and not long after, food prices skyrocketed. Then, just when it seemed things couldn't get worse, the skies dried up. Syria suffered its worst drought in forty years; yields of wheat and barley plummeted, and livestock was decimated. Nearly 1.5 million people fled the countryside, leaving fields fallow and villages abandoned.

Amid this tumult, the old ways were dying, and new mores sprung up in their place. The state began to outsource social services to nongovernmental organizations (NGOs). Between 1963 and 2000, the regime only authorized about fifty NGOs, but by 2009, it had licensed 1,485.[51] These charities attempted to

50 Heba El-Laithy and Khalid Abu-Ismail, "Poverty in Syria: 1996–2004," *Diagnosis and Pro-Poor Policy Considerations, UNDP, Damascus, Syria* (2005); Line Khatib, *Islamic Revivalism in Syria: The Rise and Fall of Ba'thist Secularism* (London: Routledge, 2011).

51 Laura Ruiz de Elvira and Tina Zintl, "The End of the Baʿthist Social Contract in

fill the void left by the collapsing social contract; the Damascus Charities Union, for example, covered the costs of medical care for 29,823 patients, including 60,000 surgical treatments, over the course of a decade.[52] Syrians learned to look to the market and private charity for survival, a harsh discipline that encouraged a new ethic. Neoliberal terms of art like "capacity building," "empowerment," "raising awareness," and "human resources" became the socioeconomic argot of middle-class Syria. The NGO distribution model reinforced the prevailing territorial logic. Laura Ruiz de Elvira and Tina Zintl write, "Previously, some citizens had reported their problems to the party or to mass organizations, hoping for help in the form of subsidies, reduced taxes, etc. In the late 2000s, they turned instead to their family networks, to private organizations, including charities, or to religious leaders."[53]

By 2008, 584 state-sanctioned Islamic NGOs and nearly one thousand Islamic schools and institutes were in operation.[54] The use of religious charities was a central plank in the regime's strategy to shed the burden of public services. Once avowedly secular, the regime began to infuse public life with religious discourse. Upon inheriting power, Bashar al-Assad repealed his father's ban on schoolgirls wearing headscarves. In 2004, the regime organized the first religious conference in four decades, entitled the Renewal of the Religious Message. Two years later, the regime even orchestrated protests against the Danish cartoons insulting the Prophet Muhammad.

Bashar Al-Asad's Syria: Reading Sociopolitical Transformations Through Charities and Broader Benevolent Activism," *International Journal of Middle East Studies* 46, no. 2 (2014): 329–49.

52 De Elvira and Zintl, "Baʿthist Social Contract."

53 De Elvira and Zintl, "Baʿthist Social Contract," 335.

54 Khatib, *Islamic Revivalism*.

It would be a mistake, though, to conclude that Syria's turn to Islam was simply engineered from above. Instead, the regime sought to control a burgeoning religious revival *from below* that was sweeping the country. This bottom-up revival had roots in the way Syrian society was being restructured by neoliberalism. As corporate bodies dissolved, the only form of associational life the regime allowed outside of NGOs was religious activity. One decree allowed the public to enter mosques outside of prayer times, overturning a ban in place since the 1980s, while another sanctioned the celebration of the Prophet's birthday. Religious study circles and mosque reading groups began to pop up. Where religion had once been a private matter, it increasingly took on a public role. [55] The members of an atomized working class found one another through faith, and new forms of intersubjective piety, such as wearing the headscarf, became widespread. Meanwhile, millions of workers went abroad to the Gulf; they returned home wealthier but also armed with new, more austere interpretations of Islam.

By reinventing faith as a public, social, and collective endeavor, the fragmented popular classes had developed a new imagined community at odds with Ba'athist Arab nationalism. This imagined community coexisted with, and reinforced, a second imagined community of global liberalism, as embodied in human rights discourse. When a decade of austerity reached its tipping point, leaving the social contract in tatters, Syrians exploded onto the street, chanting the language of faith and human rights.

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55 This religious sentiment was at least partly facilitated by *ulema* networks that enabled the rise of a religious civil society, which the regime was forced to contend with. See Thomas Pierret, *Religion and State in Syria: The Sunni Ulama from Coup to Revolution* (Cambridge: Cambridge University Press, 2013).

The Revolution

The Syrian revolution began in the provincial town of Dara'a in March 2011. Before long, protests reached Damascus and Aleppo — but only the shantytowns ringing these metropolises. One observer writes,[56]

> When the uprising first reached the capital in 2011, I noticed something odd as I followed the news. The first areas in Damascus that rose up against the regime sounded strangely familiar, although I had never visited them: *Jobar, Douma, Barzeh, Ghouta, Qaboun, Harasta*. It took a moment before it hit me. They were the names that I had seen every day on the roofs of passing microbuses. They were the destinations of the routes; places on the outer limits of the city's sprawling suburbs. Some of them were lines that I had ridden regularly within the city. But I didn't have any friends or students in these places. There were no famous restaurants or beauty spots there. I'd never had a reason to ride the *servees* to the end of the line.

This was indeed a revolution of those at the end of the line. The pattern of protests corresponded precisely to the regions that had suffered most from the social contract's unraveling: small provincial towns and densely populated informal settlements on the edge of cities. Protesters gathered in force in outlying areas like Idlib and Deir ez-Zor, which had suffered from drought and privatization. Depressed subaltern suburbs like Ghouta, outside of Damascus, had swelled in population in recent years from those fleeing the countryside. In Aleppo, the revolution was centered in the working-class warrens of the eastern part of the city, as well as small countryside towns surrounding the city. Yasser Munif writes that

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56 Matthew McNaught, "The End of the Line: A Microbus Map of Damascus," Syria Comment, July 2, 2013, joshualandis.com/blog/the-end-of-the-line-a-microbus-map-of-damascus/ (accessed July 12, 2020).

“the overlap between the [protest] areas and informal housing is striking. The insurgents controlled the vast majority of informal settlements. The same thing can be said about the split between affluent and poor neighborhoods. None of the wealthy districts were under the control of the opposition.”[57] In west Aleppo or in central Damascus, on the other hand, where the Sunni business class was integrated into the state bourgeoisie, and where a small, highly skilled professional class benefited from neoliberal reforms, the revolutionaries were unable to make inroads.

In the early stages, the revolutionary leadership consisted of two blocs: a provincial bourgeoisie fully committed to the free market but opposed to the regime, and middle-income professionals like lawyers, engineers, and architects who embraced human rights discourse. The former tended to be pious, the latter secular, but both essentially espoused a liberal alternative to the Assad dictatorship, calling for personal freedoms and democracy. The quintessential example of this layer could be found in the town of Mare‘a, in the northern Aleppo countryside. A few months into the uprising, businessmen and lawyers from the town’s richest families formed a Local Coordinating Committee (LCC), a body that organized protests and liaised with similar organizations popping up around the countryside.

Unlike the 1980s uprising, the revolution was truly a mass movement, and its leadership initially enjoyed a massive social base. In towns like Mare‘a, nearly the entire population actively or passively supported the uprising. And yet, surprisingly, the movement failed to topple the regime. Its weakness lay in its lack of structural leverage; the movement’s rank and file consisted of precarious, semi-employed workers who simply did not possess

57 Yasser Munif, *The Syrian Revolution: Between the Politics of Life and the Geopolitics of Death* (London: Pluto Press, 2020), 60.

the structural power to threaten the Syrian elite. It was also fragmented, built around the family and neighborhood networks that survived the collapse of the corporatist order. The Mare'a LCC, for example, was drawn from a cluster of tight-knit families and was unable to undertake concerted collective action with LCCs from other provinces. The movement's mode of resistance was limited to temporarily occupying town squares or the landings outside mosques. The regime responded with unimaginable brutality, killing without discrimination, but the protests continued — an extraordinary triumph under the circumstances. But for the revolutionaries, the cycle of protest and repression was unsustainable, as the regime was prepared to employ genocidal measures.

It was under these circumstances that the revolutionaries began to arm themselves, usually by sourcing weapons on the black market or by raiding government depots. This was, in effect, a desperate attempt to *substitute* for structural leverage. Unable to dislodge the regime peacefully by threatening its vital interests, the revolutionaries were forced to adopt military means. By the spring of 2012, the revolutionaries began to receive foreign support: Saudi Arabia provided small amounts, mostly to secular and tribal groups, while Qatar flooded ex–Muslim Brotherhood networks with much larger quantities. In other words, the revolutionaries resorted to arms and foreign aid because they lacked structural leverage, which ultimately stemmed from the disincorporation of Syrian society over the previous decade.

By mid-2012, revolutionaries succeeded in expelling the regime from nearly half of Syrian soil. In these stretches of liberated countryside, a new challenge arose: how to keep the lights on and the schools open without the presence of the government. The LCCs morphed into a new body, called Local Councils (or, in some cases, Revolutionary Councils). In some areas, the councils effectively functioned as NGOs, but in others, they were mini parliaments, with the ability to tax, draft legislation, and even raise a police force. In Mare'a, the local council refurbished the city's water system, which had gone into disrepair under the regime. Workers in Saraqib, in Idlib province, took over the local granaries and managed bread distribution jointly with the town's local council. In the town of Darayya, near Damascus, which was under regime siege, the local council established its own hospital and commandeered pharmaceutical supplies for distribution.

The most developed council was in Manbij, a city of 100,000 about an hour's drive from Aleppo. A closer look at the dynamics there provides a window into the political currents emerging in the liberated areas.

Figure 7.

CLASS BACKGROUND	**Business**	9	**Professional/ Officer**	4	**Working**	4
IINCOME	**High**	9	**Medium**	5	**Low**	4
TRIBE	**Hadhrani**	4	**Albu Sultan**	4	**Other**	9

Manbij was under the authority of the Revolutionary Council (RC), a body of fifteen members, which acted as the executive organ answerable to a two-hundred-member senate. Figure 7 shows the class background of the RC: the vast majority was drawn from the elite, especially the city's wealthiest merchants. The popular classes joined the city's revolution through new political parties, newspapers, cooperatives, and even through the rebirth of corporatist formations like teachers' and farmers' syndicates. By mid-2013, upward of seventy such *tajamma'at* — assemblies or gatherings — had appeared throughout the city. Where there had been one state-run newspaper before the revolution, no fewer than a dozen periodicals were now in circulation, including the *Free Path* and the *Sun of Freedom*. Three different women's organizations were active, including one that organized against patriarchal norms. The incipient political parties ranged from leftist to Islamist. The most important of these was the Revolutionary Youth Movement, an activist collective that, unlike the RC, was drawn entirely from the poor and working class. Liberated spaces, therefore, became a site of partial reincorporation, the rebirth of independent political structures, and the rediscovery of political imagination.

But this moment was fleeting. Remarkably, the liberated regions were able to survive the brutal counterrevolutionary onslaught waged by the Syrian regime and its Iranian and Russian backers, but they could not withstand the weight of their own contradictions. By 2016, few liberated regions remained, and the uprising was effectively finished. Ultimately, three factors doomed the Syrian Revolution. First, by resorting to arms, the revolutionaries had made a Faustian pact: they gained military leverage at the expense of autonomy. They were now subject to the whims of outside patrons, some of whom, like Saudi Arabia and Qatar, worked at cross-purposes. None of the foreign powers nominally allied with the revolution, including the Western countries, had an interest in the revolutionary overthrow of the old order. Second, revolutionary reincorporation did not go far enough. A decade of atomization, born from the logic of forty years of corporatist rule that violently severed horizontal political ties among the population, made it challenging to develop centralized structures in the midst of a counterrevolution. Though remarkable progress was made in just two years, more time was needed. But time was a luxury the revolutionaries did not have, because of the third reason: the uprising was devouring itself from within.

By mid-2013, for example, the revolution in Manbij began to tear at the seams. The Revolutionary Council's rule inaugurated a period of unprecedented civil liberties, including the freedom of press and assembly — but also the freedom of the market. This was no accident: the RC was drawn from the "provincial bourgeoisie," who had been marginalized by the neoliberal opening. The RC was unable, or unwilling, to fuse their liberal program of political rights with a redistributive program that protected ordinary people from the market. On the other hand, the Revolutionary Youth Movement (RYM), drawn from the popular sectors, supported civil liberties but demanded price controls and basic redistributive policies. The city was soon split into two opposing camps. Into this milieu appeared various Islamists, including the Islamic State of Iraq and Syria (ISIS). In the summer of 2013, ISIS had just six members in Manbij, but they deftly waged a populist campaign against the RC and built a following. They articulated these grievances in the language of Islam, which, over the previous two decades, had become a commonsense part of public life. ISIS argued that an Islamic state would level social inequalities as well as bring stability and communal solidarity, which the RC's liberal regime had failed to deliver. In August 2013, the price of bread shot up, and ISIS organized riots outside the RC headquarters. A number of RYM members joined ISIS outright, and by the end of the year, the Islamic State had effectively won the city politically, without firing a single shot. In January 2014, they formally took over Manbij, abolished the RC, shut down all newspapers, and dissolved all political parties — and the revolution was finished.

THE TUNISIAN EXCEPTION

The deeper tragedy of the Arab Spring was not simply that the revolutionaries failed, but that the seeds of their defeat were sown long before the first protest banner was unfurled, the first square occupied. Decades of corporatist rule followed by neoliberal restructuring produced angry, downwardly mobile populations without sufficient collective power to topple the old order. In Syria, where the revolution went further than anywhere else, new divides appeared, but here, too, it's difficult to imagine a different outcome when the forty-year dictatorship left no cohesive force that could challenge the populism of ISIS.

Yet it *is* possible to imagine a victorious uprising, because there was one: Tunisia. This revolution produced the only democratic transition among the 2011 Arab Spring countries; Tunisia successfully transformed from a neoliberal autocracy to a neoliberal democracy. This is despite the fact that Tunisia underwent a similar restructuring to the rest of the region, resulting in a comparable decline in public-sector employment and increase in informal labor. The size and distribution of its working class is on par with those of other Arab Spring countries. However, workers in critical industries such as oil and gas, and in the state bureaucracy, were organized independently of the regime's corporatist structures. As a result, they were not fully disincorporated by neoliberalism. Even workers in the informal sector managed to maintain a semblance of organized power through their relationship to the formal sector. The reason for this turn of events lies with the unique history of the Union Générale Tunisienne du Travail (UGTT), the national trade union confederation. Due to contingent factors, the UGTT was the only significant workers' organization in the Arab Spring countries that was not absorbed into a corporatist pact with a ruling regime. Instead, the UGTT functioned with a degree of autonomy unimaginable in Egypt or Syria, which allowed it to respond to the revolutions differently than its counterparts. In other words, the Tunisian working class was far less disarticulated and atomized than those in other Arab Spring countries. Tunisia, therefore, is the exception that proves the rule.

The UGTT emerged as a powerful nationalist force during the colonial period, but in the 1950s and '60s, it had become absorbed into Bourguiba's corporatist pact. Between 1962 and 1969, for example, real wages rose by only 1 percent, while the cost of living jumped by 30 percent, and one in five workers was unemployed — yet there were hardly any strikes.[58] This corporatist pact was similar to those in other Arab Spring countries (the Egyptian Trade Union Federation, the General Federation of Trade Unions in Syria, and the Union of Producers in Libya): abandon the right to strike and elect leadership, in exchange for worker protections. (As Nasser once stated, "The workers don't demand; we give."[59])

During the 1970s, Bourguiba fell ill, sparking a liberal faction to plot a takeover of the ruling party. The UGTT leadership sided with Bourguiba at this pivotal moment, which led him to see the confederation as an ally against rival elite groupings. As Keenan Wilder has demonstrated, it was this factional crisis that created the conditions for the UGTT's autonomy. Bourguiba looked the other way as the UGTT underwent a rapid growth in membership, with leftists entering the ranks in large numbers.[60] The potential for rank-and-file militancy was now greater than ever. Yet at that moment, elite rule was too fractious for Bourguiba to purge the ranks and discipline the confederation. Wilder writes that, instead, Bourguiba was forced to ensure that[61]

> [N]o single individual or faction, very much including the prime minister, could ever consolidate enough power in the party to remove him from the presidency. This in turn sharply limited the possibilities for rebuilding the old labour regime. With more than half of the party's membership willing to openly

58 Joel Beinin, *Workers and Thieves: Labor Movements and Popular Uprisings in Tunisia and Egypt* (Stanford: Stanford University Press, 2015).

59 Marsha Pripstein Posusney, *Labor and the State in Egypt: Workers, Unions, and Economic Restructuring, 1952–1996* (New York: Columbia University Press, 1997), 74.

60 Keenan Wilder, "The Origins of Labour Autonomy in Authoritarian Tunisia," *Contemporary Social Science* 10, no. 4 (2015): 349–63.

61 Wilder, "Origins," 353.

> challenge even Bourguiba, these same members could hardly be relied on to administer a full takeover of the UGTT or to staff new industrial cells.

It was as a result of this elite crisis that the UGTT freed itself from the corporatist pact. Strikes were still banned, but that was left to UGTT leaders to enforce. Moreover, the leadership was given the right to collectively bargain against sectoral interests. This granted the UGTT enormous leverage — at times, nearly 80 percent of Tunisia's workforce were covered by their agreements.

Over the years, the regime continued to allow this because it viewed the confederation's ability to demobilize its base and limit militancy to be worth the price of autonomy. Outside of a UGTT-led general strike in 1978 — which the rank and file essentially forced the leadership to support — the confederation mostly acted as a means to limit class struggle. In the 1970s, the economy lost an average of 241 working days per strike, but since the early 1980s, it has lost only 151.[62]

When Ben Ali came to power in 1987 and launched liberalizing reforms, he hoped the UGTT would be a means of controlling the workforce. The alternative, to crush the confederation outright, would require the use of the military, which Ben Ali wanted to avoid given his persistent fears of a coup.[63] The result was that the country's largest workers' organization was neither "totally submissive [n]or totally aligned" with the regime, a balancing act that allowed the union to play a unique role in the liberalization process.[64] Beginning in the 1990s, Tunisian labor informalized as acutely as those in other Arab Spring countries. But whereas such disincorporation

62 Calculated from International Labor Organization statistics.

63 Wilder, "Origins."

64 Béatrice Hibou, *The Force of Obedience: The Political Economy of Repression in Tunisia* (Cambridge, UK: Polity Press, 2011), 127.

severed any relationship between bodies like the Egyptian Trade Union Federation and precarious workers, in Tunisia, the UGTT functioned like a temp agency or labor market broker, assigning workers to companies and helping businesses manage flexible labor contracts.[65] The result, paradoxically, was that a rich network of relationships developed between the precarious sector and organized labor, especially mid-level militants. The extent of these ties became clear in 2008, in the impoverished heartland city of Gafsa, home to one of the largest phosphate mines in the world. Early that year, the Compagnie des Phosphates de Gafsa (CPG), a state-owned mining company, posted results for a recruitment examination. When it became clear that the CPG and UGTT officials had rigged the results in favor of their relatives, protests erupted. The leading force was the Union Diplômés Chômeurs, an organization of unemployed university graduates who were joined by mid-level UGTT cadre against the wishes of their leadership.

The Gafsa rebellion was a trial run for the Tunisian revolution. In 2011, links between the informal sector and rank-and-file UGTT activists were crucial in the early stages of the protests. In Sidi Bouzid, where the fruit vendor Mohamed Bouazizi set himself ablaze, the local teachers' union established a Committee of the Marginalized, which included precarious workers, to organize solidarity demonstrations. As protests spread, the UGTT leadership supported the regime, but rank-and-file activists turned local shops into organizing centers. The groundswell of revolutionary activism was such that the UGTT was forced to support strikes in key union strongholds. On January 13, Ben Ali dissolved the

65 Ian M. Hartshorn writes, "While the question for workers in Egypt might have been 'Where is the union?' in Tunisia it was 'Why is the union doing this?' as the UGTT had a direct role in deciding who got a job." Hartshorn, *Labor Politics in North Africa: After the Uprisings in Egypt and Tunisia* (Cambridge: Cambridge University Press, 2019), 105.

government and declared a state of emergency. The next day, UGTT leadership succumbed to intense rank-and-file pressure and called a two-hour general strike in Tunis. That same day, Ben Ali boarded a plane with his family and fled.

In Egypt, by contrast, a wave of wildcat strikes was the tipping point — the Egyptian Trade Union Federation (ETUF) stuck with Mubarak until the end, and even after. (In response, activists created an independent confederation, the Egyptian Federation of Independent Trade Unions (EFITU), but as Joel Beinin remarks, "Unlike the UGTT, EFITU did not have the historical legitimacy, militant activists, or logistical capacity to organize strikes from a national trade union center."[66])

Post-revolution, the UGTT deepened its ties to the informal sector, and even managed to ink agreements with the state and the private sector to convert precarious jobs into permanent union contracts. As a result, union membership expanded by as much as 200,000.[67] For the first time, the UGTT began to side with the UDC (Union of Unemployed Graduates) and other groups of unemployed workers in the face of police repression — for example, by supporting strikes by temporary sanitation workers seeking permanent status.

In Egypt, meanwhile, events took a dark turn. In the summer of 2013, the Muslim Brotherhood government was facing widespread protest; opposition forces had withdrawn from the constituent assembly, and there were growing calls for the dissolution of the Mohamed Morsi–led government. This ultimately paved the path for 'Abd el-Fattah al-Sisi's coup. The workers' movement could do little; it was divorced from the mass of informal labor and hopelessly divided, with the official ETUF staunchly pro-military, while

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66 Joel Beinin, *Workers and Thieves*, 108.

67 Hartshorn, *Labor Politics in North Africa*, 138.

the independent unions lacked the numbers or leverage to stop Sisi once his designs became clear.

Remarkably, that summer of 2013, as the Egyptian revolution hung in the balance, a nearly identical situation was playing out in Tunisia. There, mass protests had erupted against Ennahda, a Muslim Brotherhood–like party dominating the post-revolutionary government. Opposition forces withdrew from the Constituent Assembly, threatening the democratic transition itself. In this critical moment, the UGTT convened three other groups (an employers' association, the Tunisian Order of Lawyers, and the Tunisian Human Rights League) and convinced Ennahda to step down and transfer power to a technocratic government. A new constitution was drawn up — the most progressive in the Arab world — and, in late 2014, Tunisia held its first ever free elections. For saving Tunisian democracy, the National Dialogue Quartet — of which the UGTT was the leading player — won the 2015 Nobel Peace Prize.

Conclusion

In 2019, the Arab world once again erupted in upheaval — and this time, it was joined by protesters around the globe, from Argentina to Iraq. Unlike the Arab Spring, which was initially organized around demands for human rights and democracy, the proximate cause in this round was economic: a tax on WhatsApp usage in Lebanon, a tripling of the price of bread in Sudan, a four-cent price hike on a liter of gas in Iran, an increase in metro fares in Chile. Despite the difference in demands, the 2019 revolts share much with those of 2011. First, they are symptoms of the neoliberal assault on living standards and social mobility that runs much deeper than simple price and tax fluctuations. In Sudan, for example, the secession of the oil-rich South in 2011 prompted a severe shortage of hard currency reserves, which ultimately pushed the government, encouraged by the IMF and the World Trade Organization, to impose radical austerity measures, such as cutting off the long-standing bread subsidy.[68]

Second, many of the movements adopted the same leaderless horizontalism as their 2011 counterparts. For instance, protesters from Catalonia to Hong Kong to Chile have embraced as a slogan Bruce Lee's maxim "Be formless, shapeless — like water."[69] The reasons for this attitude are plenty, but working-class disincorporation remains key. And with disincorporation comes powerlessness. We are still firmly in the clutches of the "Age of Anger," where popular fury against the status quo falls short of popular capacity for change.[70] In Iraq, for example, the state sector actually underwent a dramatic expansion under the American occupation, because the United States and the ruling parties sought to use state patronage as a tool to attract support in the face of insurgency and civil war. But these were not the high-quality public-sector jobs of the old social contract; woefully underpaid, most employees were forced to take additional work in the informal sector, while the Iranian- and US-backed politicians grifted hundreds of millions from state coffers. The mass protests that erupted in October 2019 consisted of those excluded from the patronage of these ruling parties. The protesters were fearless and heroic, carrying on their shoulders the aspirations of millions of Iraqis desperate for deliverance from decades of war, but they lacked organization or links to key sectors like the oil workers. Without a means to strike at the heart of

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68 Edward Thomas and Magdi el-Gizouli, "Sudan's Grain Divide: A Revolution of Bread and Sorghum," The Rift Valley Institute (February 2020).

69 Robin Wright, "The Story of 2019: Protests in Every Corner of the Globe," *New Yorker,* December 30, 2019, newyorker.com/news/our-columnists/the-story-of-2019-protests-in-every-corner-of-the-globe.

70 Pankaj Mishra uses this phrase to describe the rise of the Right, but it could well describe the politics of popular protest across the spectrum. See Mishra, *Age of Anger: A History of the Present* (London: Macmillan, 2017).

elite interests, their anger could not match their power, and the government waged bloody repression.

But as in round one of the Arab revolutions, round two offers signs of hope. In Sudan, the revolution kicked off in December 2019, when informal workers took to the streets in the dusty mining town of Atbara, the cradle of the union movement. The unrest soon spread to the middle- class quarters of Khartoum, the capital, where doctors' and journalists' syndicates assumed leadership of the uprising. By April, dictator Omar al-Bashir had lost the support of the United Arab Emirates, his key benefactor, and he was toppled. The post-revolutionary milieu looked familiar: a split between *ancien régime* elements and a middle class–informal sector alliance. But like in Tunisia, for historically contingent reasons, unions and political parties had survived, and activists had established ties between the organized and unorganized sectors of society. In June, when an arm of the military called the Rapid Support Forces (which emerged from the infamous Janjaweed militias in Darfur) carried out a massacre in Khartoum, the revolutionaries called a successful three-day general strike. The mass civil disobedience and work stoppage led to a power-sharing deal between protesters and the military and a plan for elections.

The road to power is strewn with the detritus of forty years' history, but Sudan and Tunisia teach us that these obstacles are not insurmountable. No matter the structural challenges, the road runs a straight course: there's no getting around the painstaking work of becoming rooted in communities, building local institutions, and forging links with the organized sections of the working class. When the third revolutionary wave comes — and come it will — it is the thousands of thankless acts like these that will turn anger into power.


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ABSTRACT

Latin America is in the throes of its second great neoliberal crisis. Besides producing social disasters, neoliberalism led to collapses of what once appeared as stable post-authoritarian market regimes in Brazil, Chile, and Mexico. Tracing how their progressive governments consolidated business power while fragmenting labor sheds light on their eventual failures and divergent political outcomes.

FEATURE

The End of Progressive Neoliberalism

René Rojas

COVID-19's battering of Latin America overshadows regional turmoil underway long before the pandemic. The health disaster is exacerbating an economic and political crisis for which governing classes have no answers. Populists have upturned governments in Mexico and Brazil, while rebellion has shaken the foundations of Chile's regime, leaving this exemplary liberalizer in an uneasy political stalemate. Activists, analysts, and elites all hope to grasp where the instability is headed. Getting a handle on how these crises will unfold, and the direction of Latin American politics more generally, requires an examination of the ruling strategies that led to this situation.

Since its 2010 rebound from global recession, Latin America had been engulfed in a deepening economic contraction, even before the pandemic hit. After posting 6.3 percent growth in 2010, the region's economic expansion had slowed by more than half by 2013 and has flatlined since 2016. Following the post-recession ricochet effect, Latin America's top ten economies have expanded at an anemic rate of 1.5 percent. Even excluding Venezuela, whose double-digit contractions since 2015 amplify the depth of economic woes, the region was performing worse than during the 1990s, roundly considered a lost decade.

For those in power, nothing has worked. The first major crisis of neoliberalism in Latin America produced a wave of reform governments known as the Pink Tide. The question confronting the region today is: Will this crisis also have dramatic reverberations, as its predecessor did? Some optimistic observers see the rise of a "Latin Spring." Others contend that the crisis is pushing Latin America onto a reactionary course with a resurgent neo-authoritarian right asserting itself throughout. But is it possible that the crisis of neoliberalism might steer Latin American countries in multiple and unpredictable directions?

This essay contends that Latin America's second major neoliberal crisis is advancing along two paths: one characterized by relative continuity, the other by volatile uncertainty. Inverting the region's trajectory of two decades ago, former Pink Tide countries can be expected to follow a path of general, if harshly contested, equilibrium, while those that were consolidating democratic transitions and escaped turmoil during the 2000s have entered a period of deep instability. Whereas the Pink Tide settlement, a stalemate of sorts, reflects the failure of both the governing lefts and traditional ruling classes to offer solutions to the current impasse, the volatility in the remaining countries expresses a collapse in elite strategy. This disintegration of what I call "progressive neoliberal" rule and its divergent outcomes are illustrated by developments in Brazil, Chile, and Mexico.

To make sense of looming turmoil and anticipate how the Left might most effectively intervene, it is important to understand how the political crisis today differs from the one that took down the Pink Tide. Toward this end, this essay first describes the distinctiveness of post-1980s neoliberalism in Brazil, Chile, and Mexico (hereafter BCM) in comparison to the Pink Tide, and then explains how these features steered their regimes toward collapse. In a previous *Catalyst* essay, I argued that the Pink Tide governments floundered when left governments failed to carry out the promises they had made to their base.[1] Despite powerful mobilizations that brought them to power, the progressive administrations in Argentina, Bolivia, Ecuador, and Venezuela discovered that structural constraints closed off the possibilities for systemic change. Two decades of neoliberalism had so transformed the class structure of these countries that the social base of Pink Tide governments, while militant, had little economic leverage against capital. Backed primarily by workers in the informal economy and marginalized communities, left-wing governments simply lacked the leverage to challenge ruling classes.

While Pink Tide countries brought their progressive governments to power on the back of mass upheavals, the BCM countries underwent their own transition — replacing authoritarian regimes with avowedly progressive challengers. Brazil's dictatorship gave way in the mid-1980s; Chile restored democracy in 1989–1990; and Mexico transitioned away from its single-party state in the following decade. And whereas the Pink Tide governments had to face down their ruling classes with a weak and atomized social base, the class base of the BCM regimes preserved significant capacity to press for meaningful reform.

1 René Rojas, "The Latin American Left's Shifting Tides," *Catalyst* 2, no. 2 (2018): 7–71.

When progressive parties came to power, the liberalization under their authoritarian predecessors had not completely dissolved working-class capacities. So Brazil, Chile, and Mexico were much better positioned to follow through on their progressive platforms than were their Pink Tide peers. But paradoxically, the BCM regimes failed to take advantage of their opportunity. Rather than promote and harness the power of labor, the BCM regimes pursued a neoliberal program that further disintegrated their working-class bases and championed the interests of capital.

It is important to note that they were not garden-variety neoliberal regimes of the American kind. Their strategy did extend economic stability and expansion, as well as a degree of redistribution. It was enough to distinguish them from the austerity models classically associated with pure market-based strategies. For this reason, and because they came to power in new democratic contexts that carried expectations of real egalitarian reform, I refer to them throughout this essay as "progressive neoliberals." Their economic and governing strategies, however, had the effect of undermining their political stability in the middle run.[2]

BCM accumulation models deeply fractured their societies, accelerating a process of institutional decay and deepening

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2 As with all such classifications, grouping Brazil, Mexico, and Chile as I do in this essay suffers from a degree of imprecision and may raise some objections. Two in particular are likely to come up. First, many may reject including post-authoritarian Mexico as a "progressive neoliberal" regime, mainly because the right-wing PAN governed throughout most of the period I analyze. In my view, the hopes for democratic and egalitarian change following the demise of PRI dominance and the gains made by the Left during these years warrant placing Mexico within this category. Second, some may object to Brazil's inclusion for a different reason. Unlike in Chile, where the center-left came to power immediately following the end of authoritarianism, the Partido dos Trabalhadores (PT) did not govern until roughly fifteen years into the transition. I include Brazil as a key country in my analysis because of the leftist PT's indispensable role in shaping the post-authoritarian regime. Throughout, as the PT rose in power, it contributed centrally to the ruling system that it came to govern.

inter- and intra-class divisions, as well as material and physical insecurity. These failures ultimately provoked the ongoing collapse of the progressive neoliberal regimes.

DIVERGENT NEOLIBERAL TRAJECTORIES

In broad terms, the political crises that have engulfed Brazil, Chile, and Mexico in recent years fall on a continuum. In Mexico and Brazil, the rebellion took electoral form, with a left-nationalist taking power in the former, even as a reactionary upsurge toppled the Lula government in the latter. The rebellion in Chile, for now, has been extraparliamentary and more radical in its demands. But all three insurgencies are unstable, because they are not firmly rooted in social forces with any appreciable leverage. Before reviewing the political economy of the regimes' respective collapses, I will quickly summarize their rebellions.

In Mexico, the upheaval spelled the end of the multiparty regime that followed the decades-long rule of the PRI, and catapulted to power Andrés Manuel López Obrador (AMLO) in December 2018. The electoral insurgency that gave his new party, MORENA, an overwhelming parliamentary majority also swept away the post-authoritarian regime, including its three mainstay parties, the PRI, PAN, and PRD.[3] Two key developments pushed the masses to embrace AMLO's "regeneration" program. First, both the Right (PAN) and former corporatist centrists (PRI) had their turns in power following the 1994–2000 democratic opening, while the Left (PRD) was relegated to third place and minor regime partner status. Second, rising violence and institutional

3 For a brief analysis of AMLO's sweeping victory and the challenges he faces, see my recent article: René Rojas, "López Obrador's Rise to Power: What Does It Hold for Labor?" *New Labor Forum* 29, no. 1 (2020): 38–48. See also Humberto Beck, Carlos Bravo Regidor, and Patrick Iber, "Year One of AMLO's Mexico," *Dissent* 67, no. 1 (2020): 109–118.

decomposition, aggravated by a rash 2006 escalation of the drug war, threatened the interests of all classes, business included. With the right and center discredited and incapable of offering a viable solution to the insecurity afflicting both people and profits, and amid an unstoppable swell of popular support for AMLO, leading sectors of capital abandoned their traditional representatives and pragmatically lined up behind the nationalist candidate. These capitalists conditionally supported AMLO and continue to give him a chance, applying concerted pressure on his policy-making; on the other side of the class ledger, labor and popular movements can muster little counterweight.

If Mexico's electoral insurgency leaned left-nationalist, the rebellion at the Brazilian ballot tilted decidedly to the right, sweeping away Luiz Inácio Lula da Silva's or Lula's peculiar brand of progressive neoliberalism. The long slide toward crisis came on the back of two previous shifts in Brazilian politics — first the end of the military regime that was in power for two decades starting in 1965, and then the defeat of Fernando Henrique Cardoso, erstwhile *dependista* and favorite of the Western chattering classes. It was Cardoso who firmly anchored Brazil in the neoliberal pantheon, coupling an anti-labor disciplinary regime with a free-market economic strategy. Lula succeeded him in his historic 2002 victory and then won reelection in 2006, cementing his place as a pivotal figure in modern Brazilian history. But his militant rhetoric and real popular gains notwithstanding, over nearly fifteen years, Lula and the Partido dos Trabalhadores (PT) actually extended the essential elements of a neoliberal model by combining targeted social spending with ever-deepening ties to Brazilian business and corrupt political elites.

The PT's pivot from patiently building a disciplined labor movement and party to a more pragmatic, Machiavellian governance strategy produced gargantuan concentrations of capital and broad consent founded on invigorated labor markets and benefits trickling down through means-tested welfare. Yet Lulismo's political coalition crumbled rapidly. A stubborn downturn left the PT susceptible to a growing backlash that found expression in Jair Bolsonaro's reactionary campaign. Unlike in Mexico, where violence and decay damaged business interests, in Brazil, institutional decomposition became the means for profit. Under Lula's successor, Dilma Rousseff, the start of an austerity program alongside ballooning graft scandals shattered middle- and working-class consent. Amid soaring joblessness that eroded livelihoods for all but the wealthiest and spiking homicide rates in the favelas, revanchist anti-crime and anti-corruption outcries thrust Bolsonaro into office over an ineffectual PT apparatus. Its preferred politicos, such as Michel Temer, proved inept after the ousting of Dilma, and the business class reluctantly ceded leadership to its most retrograde pro-Bolsonaro sections in 2018.

Whereas the crisis found expression in the electoral arena in Latin America's largest economies, in Chile, it exploded on the streets in October 2019. Rather than populist outsiders overwhelming extant ruling systems, the rebellion has been extra- and anti-parliamentary. Following the democratic transition, a center-left coalition arose in 1990 to dominate the state as the senior partner to a post-Pinochet right. The Socialist–Christian Democratic Concertación alliance seamlessly advanced the military dictatorship's ruthless market reforms and honed a pro-business ruling strategy. But the power-sharing arrangement with the center-right that oversaw capitalist expansion built atop intractable inequality finally drove Chileans to erupt with a ferocity that may have terminally weakened Latin America's free-market poster child.[4]

4 For a brief analysis of the rebellion, see my forthcoming article in *New Labor*

The rebellion's disruptions were so extensive that the ruling establishment was forced to concede a plebiscite that will surely vote for a constituent assembly. Again, the common pattern featured rising insecurity and institutional decomposition that drove an irremediable crisis of representation and legitimacy. But unlike its peers, the bi-coalition bourgeois consensus in Chile was so deeply entrenched that its collapse leaves business, for now, without a preferred ruling option. Unfortunately for popular sectors, however, labor remains structurally disjointed, and despite mounting protests since 2011, much like in Mexico, its marginalized sectors remain largely disorganized.

The recent BCM rebellions have their roots in the failures of progressive neoliberalism. Rather than challenge the neoliberal orders inherited from their authoritarian predecessors, new progressives deepened them. Opportunities to reform their countries into more genuinely democratic and egalitarian societies were restricted but real. They resided in the structural leverage of post-authoritarian progressives' labor constituencies that survived earlier waves of liberalization. This is what the BCM governments squandered.

POLARIZED ACCUMULATION AND GOVERNANCE

Like all Latin American societies, neoliberalism dramatically restructured the three countries currently in upheaval. Liberalization in BCM, like in their Pink Tide counterparts, dismantled manufacturing complexes, shifted investments toward services and commodities exports, and cast broad sections of the working class into the informal sector. Despite the transformations, all

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Forum, "The Explosion of the 'Expendables': Workers Rebel Against Chile's Progressive Neoliberalism."

three economies emerged with more favorable sectoral compositions than regional peers. Their relative competitiveness reflected uneven records of their mid-century developmentalist campaigns.

Economic opening and deregulation occurred at different moments and in spurts. Chile was the first to embrace liberalization and abandon state intervention, following the 1973 coup toppling Salvador Allende's socialist government. The Augusto Pinochet dictatorship's first measures were to ban all parties and unions, and brutally repress left and labor organizations. After crushing radicals, in the mid-1970s, the military regime adopted extreme laissez-faire measures that reprivatized industries and landholdings, liberalized capital markets, and eliminated protectionist barriers. The regime radically reoriented national growth strategy toward mineral and agricultural exports that Chile produced with natural comparative advantages.

The junta's shock policies engendered a major depression in the early 1980s, wiping out a tenth of national output and throwing a quarter of workers into joblessness. Though the Pinochet dictatorship responded with interventions aimed at buoying key sectors, including nationalizing overleveraged and insolvent banks, it soon reopened markets with minimum regulations and reinstated the liberalization drive. Beginning in the late 1970s, the junta also eliminated labor rights, commodified social provision, and decentralized public services.

Pinochet's 1979 labor law sharply curtailed the right to organize, strike, and bargain collectively. Pensions were privatized, and education was broken up into localized public districts and voucher-funded private institutions. The center-left governments that have dominated since re-democratization deepened privatization and labor-market flexibilization. Likewise, they completely embraced a minimalist approach to economic development, despite the availability of resources for rebuilding national industry.

The Mexican neoliberal turn came a little later and was also instituted at two key moments. The first liberalizing thrust was carried out by the PRI-dominated corporatist state in the early 1980s, following a peso collapse and an ensuing debt crisis. It drastically reduced supports for ambitious industrial projects, privatized public enterprises, and began opening its market to outside goods and investment. The PRI, increasingly delinked from ruling institutions after its discrediting 1988 electoral fraud, began shrinking and targeting social provision during its final 1994–2000 six-year term under Ernesto Zedillo.

Mexican liberalization hit overdrive with the 1994 North American Free Trade Agreement (NAFTA). NAFTA comprehensively opened trade with the United States, exposing manufacturing and agriculture to cheaper American goods and integrating specific segments, mainly downstream assembly, into multinational supply chains. The pact also deregulated financial markets, prompting a second devastating currency crash, which further dissolved and polarized Mexican industry. Though the authoritarian PRI state led the first round of liberalization in response to the crisis of corporatist developmentalism, it was pushed forward by its alternating democratic successors. The two PAN governments (2000–2012) that followed the end of the PRI's monopoly on federal power were devoted to completing and consolidating prior market reforms.

The Brazilian path to neoliberalism is perhaps the most complex. After the 1970s, increasingly volatile fiscal and currency crises led to a gradual whittling of the region's leading industrial development regime. Significantly, the bulk of liberalization came after re-democratization. Ongoing abandonment of industrial policy combined the classical story of exposing, dismantling, and privatizing industry with maintenance of fairly robust state support for advanced manufacturing. After heterodox attempts at controlling spending and hyperinflation failed, Brazil's third post-military government successfully imposed orthodox monetary policy, the Real Plan.

In the mid-1990s, the Fernando Cardoso government accelerated these developments and made a mockery of the social rights written into the 1988 constitution by adopting piecemeal and provisional measures that stripped protections for growing numbers of workers. Besides eliminating wage indexing and promoting flexible work relations, Cardoso prioritized targeted social provision over efforts to establish far-reaching programs such as universal health care.

After Lula came to power in 2002, PT governments exercised continuity with many of these practices. Though the PT strengthened the state's role in social and economic life, it did so in ways that deepened neoliberal policies. Targeted cash assistance to the poor was massively increased and deemed a success by certain measures, but Lulismo's new dirigisme, unlike in Chile and Mexico, also included major direct corporate support. Public credit for private firms reached 5.4 percent of GDP, compared to 0.3 and 0.6, respectively, in Chile and Mexico.

EMERGING INDUSTRIAL PROFILES

The essence of neoliberal restructuring in Brazil, Mexico, and, to a lesser extent, Chile was dualized economic diversification. The dualism comprised one set of industries that was internationally competitive, often in sophisticated goods, and grew out of the previous era of state-led industrialization; and another set that not only remained backward and low-profit, but was also mired in a spiral of terminal decline. As these sectors were both opened to the global economy, they fared very differently in the face of international competition.

On one side, dynamic sectors experienced success in regional and global markets; on the other, technologically lagging sectors languished or died out altogether. The resulting industrial base thus comprised the declining sectors — low-skilled industries, often informal and based in primary commodities like textiles and foodstuffs — but also technologically advanced branches producing finished goods like cars, electronic machinery, and even aircraft, as well as nontraditional agro-industrial products, minerals, and ores. In short, while liberalization pushed BCM economies toward narrower, specialized, and primary segments of production and fragmented their labor processes, it preserved strategic sectors that offered workers substantial structural leverage.

Brazil provides a good example of the success in high-end lines, even as large parts of the economy languished. By the 1980s, industrialization efforts proved so successful that the country was exporting motor-vehicle engines, cars, buses, and trucks. During the 1990s, Brazilian industry continued to move up the global pecking order, supplying car parts for assembly in neighboring countries and even building aircraft. Indeed, by 2000, jetliners topped Brazilian exports, accounting for more than 6 percent of their value.[5] By then, Embraer, a state-owned industry privatized in 1994, stood as one of the world's leading airplane manufacturers.[6]

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5 CEPALSTAT, "Brazil: Exports of the 10 leading products (SITC, rev. 1), by their percentage share each year." Available at cepalstat-prod.cepal.org/cepalstat/tabulador/ConsultaIntegrada.asp?idIndicador=1953&idioma=i.

6 A recent industry report praised Embraer thus: "Brazilian manufacturer Embraer has been building airplanes since 1969 and made its first splash in the American market in the 1970s with its family of commuter turboprops. In 1994, the Brazilian government sold the company to private investors who began developing a regional jet, the ERJ Models 135/145. The RJs carried the company to $3.4 billion in annual sales and $380 million in profits by 2004. More than a thousand 135/145s have been built, and the airframe served as the foundation for the company's first business jet, the Legacy 600, in 1999. The Legacy represented the initial stage in a plan to develop the complete line of business jets that have since come to market. "In 2005, the company announced its intention to develop two entry-level jets, the Phenom 100 and 300. Deliveries of the 100 began in late 2008. The Phenom 300 was the bestselling business jet from 2012 to 2016. Embraer subsequently built an engineering, development, assembly, and delivery center for the aircraft

Neoliberal transition in Mexico also produced mixed, if less impressive, results. Immediately after the 1982 crash, when crude oil commanded foreign sales, and before NAFTA, its auto industry was shipping car engines north. Though Mexican industrial exports exhibited a qualitative decline, slices of manufacturing fostered under the PRI's aggressive import substitution industrialization (ISI) remained internationally competitive. Along with motors, less complex car parts continued to be exported through the 1990s and into the 2000s. At the same time, Mexican plants emerged as highly efficient makers of electronics, including billions of dollars' worth of "electric power machinery."

In the mid to late 1990s, Mexico was shipping cars and trucks, often including various domestically manufactured upstream parts. By 2000, in fact, motor vehicles accounted for a full tenth of all export value, equaling crude oil's share. At the end of the transition to democratic neoliberalism, advanced electromechanical goods, whether assembled from imported parts or manufactured within surviving vertically integrated segments, dominated the export economy, permanently replacing the primary goods that prevailed through the 1970s.[7]

Liberalization's impact on Chilean industry was more damaging. Industrialization via sustained state involvement in the postwar era had been relatively modest. Worse still, the tumultuous sequence from the socialization battles under Allende to

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in Melbourne, Florida. In 2006 the company announced the Lineage 1000, a large business jet based on its Model 190 airliner. Deliveries began in 2009. In 2008, Embraer announced that it was proceeding with development of two midsize jets, the Legacy 450 and 500. The company introduced updated and enhanced versions of those models, called the Praetor 500 and 600, in 2018. Embraer's Melbourne center is also home to Embraer X, stood up in 2017 to explore 'disruptive technologies,' including urban air vehicles."

7 CEPALSTAT, "Mexico: Exports of the 10 leading products (SITC, rev. 1), by their percentage share each year." Available at cepalstat-prod.cepal.org/cepalstat/tabulador/ConsultaIntegrada.asp?idIndicador=1964&idioma=i.

the 1973 coup, along with continual economic turbulence through the early 1980s, all severely weakened national manufacturing. Some branches vanished completely.

Nevertheless, even limited mid-century industrial development produced achievements that survived the turmoil and liberalization shocks under military rule. These were most evident in the mineral sector, where Chile ascended not merely as an extractor of raw ores, but also as a processor and exporter of more refined copper goods. By the mid to late 1980s, as the country recovered from the early decade's devastation, refined copper accounted for nearly two-fifths of exports. Though Chilean sales of copper products such as wire and rods withered, by the 1990s, the country began exporting methanol, an accomplishment of the national gas industry, an ISI stalwart. These narrow successes should not, of course, veil the stark reconfiguration in which natural commodities (apples, grapes, and wine) and low-value-added basic goods (e.g., wood pulp, lumber, and mineral ores) grew in prominence.

POTENTIAL WORKER POWER IN FRACTURED POLITICAL ECONOMIES

As in the Pink Tide, the proletariat that emerged in BCM was thoroughly fractured, with vast swaths thrown into the informal sector and marginalized services, while select segments clustered in advanced manufacturing. The persistent dualism in the three countries meant that large portions of the labor force did not benefit from the gains of industrialization. On the contrary, for them, economic development amounted to jobs that came with brutal conditions, insecurity, high labor-market competition, and stagnant wages. Yet in contrast to the Pink Tide, a considerable share of workers, particularly in Brazil and Mexico, were positioned in firms with substantial structural leverage.

As shown in Figure 1, BCM economies constantly relegated more than one-third of their proletarians to the informal sector. Informality engulfed a third of Chilean workers, more than two-fifths of Brazilians workers, and just under half of Mexican workers.[8] Reflecting the regional pattern, the immediate impact on informalized employees' security, as well as the less direct impact on the entire class, has been devastating. Driving millions into the scattered and cutthroat work of peripheral and underground activities undermined both the associational capacities and structural leverage of labor. Massive expansion of a permanent reserve of desperate and atomized workers erected a daunting barrier to organization and coordinated action. Undoing vertically integrated industry and introducing streamlined and flexibilized forms of work like subcontracting massively displaced employees from secure clusters in strategic nodes of production. The number of workers who were collectively positioned to impose costs onto capitalists by withholding their labor shrank precipitously.

Despite this general blow, BCM labor still fared better than in the Pink Tide, where, with the exception of Argentina, unprotected marginalized work overwhelmingly predominated. Progressive

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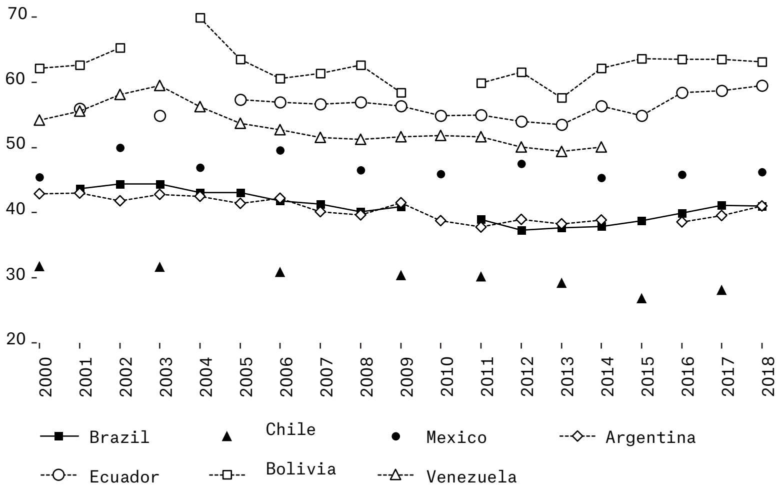
8 These are somewhat conservative figures, as they capture only the most marginal forms of work reliably measured by states. In more encompassing ECLAC (Economic Commission for Latin America and the Caribbean) series on informal employment, labor market realities are more troubling. Following a less stringent classification that leaves many workers uncounted, Chilean informality, for instance, hovers around 40 percent of the working population. The numbers for Pink Tide informality are even more startling. While informal employment was significantly reduced from the mid-2000s to the mid-2010s, it has recently experienced a significant uptick. According to the broader ECLAC informal employment series, Bolivian informality fell abruptly from a staggering 94 to 77 percent after Evo Morales's first year in office. It continued to decline steadily, reaching 73 percent in 2013, only to climb back to 79 percent in 2017. The same pattern can be observed in Ecuador under Rafael Correa, when informal work fell from 75 percent in 2007 to 60 percent in 2014 and then reversed its trajectory, hitting 65 percent in 2017. In other words, after a decade of Pink Tide rule in these Andean countries, informality still plagues from four-fifths to two-thirds of the working population.

reforms in Bolivia, Ecuador, and Venezuela scarcely put a dent in their informal sectors. In all three countries, after initial improvements, between half and two-thirds of all workers were still engaged in precarious low-productivity work.

However, during the 2000s and the first half of the 2010s, informal labor reductions in BCM, although hardly transforming the broader contours of their labor markets, were noted. Chile's informal sector was cut by nearly one-sixth, while in Brazil, it shrank by the same proportion to just over one-third. In Mexico, informality proved more intractable, engulfing nearly one-tenth of workers after falling by one-tenth.

Figure 1. Share in Low-Productivity Informal Sector



Labor's sectoral distribution was more consequential. Shares of employment in higher-leverage sectors, along with the higher relative value of these sectors, gave BCM working classes what can be referred to as stronger leverage potential. One can think of more intense potential leverage as a function of the share of the labor force in relatively more valuable branches of production.

Relative value, in turn, is determined by each sector's per capita output. Potential leverage is therefore higher, to the extent that more workers are employed in sectors with greater per capita output. Crucially, when compared to their Pink Tide neighbors, even after two decades of liberalization, BCM working classes enjoyed superior potential leverage when progressive governments came to power.

On the cusp of the PT's 2002 election, more than a quarter of Brazilian workers were still employed in high-leverage manufacturing, construction, and transport. At the same time, they accounted for 30 percent of the country's per capita output of $2,400. That is, more than one-fourth of all labor was situated in valuable and strategic sectors.

Mexico's labor profile was even more promising. When the PRI lost power in 2000, just under one-third (32 percent) of all workers had positions in manufacturing, construction, and transport — sectors that, in the aggregate, accounted for 36 percent of a total per capita output of $6,700. Manufacturing alone accounted for one-fifth of production, employing an equal share of the labor force. The intensity of the Mexican proletariat's potential leverage was formidable, as workers found themselves in jobs with structural power that generated an imposing portion of the economy's value. When adding workers in other high-leverage branches, like mining, energy, and utilities, the potential power of Mexico's working class increased further, as more than a third of all workers produced 43 percent of per capita output.

In this respect, Mexico stood in sharp contrast with Venezuela, the Pink Tide country that similarly depends on crude oil. In 2000, a year into Hugo Chávez's first term, while nearly 30 percent of workers were employed in manufacturing, construction, and transport, these strategic sectors accounted for less than a quarter of the economy's value. When oil production is added, the share of strategic per capita output jumps to almost two-thirds; the share of employees in these branches, however, scarcely increases, as oil and energy workers represented only 1 percent of the active population. When juxtaposed with the 55 percent of Venezuelans in informality, the potential for exerting power through work in strategic production diminished greatly.

When democracy returned to Chile in 1990, its working class also retained significant potential leverage. Almost a decade after transition, nearly 30 percent of Chileans worked in manufacturing, transport, and construction. Together, they produced 35 percent of the country's per capita output by 1998, after the country's longest period of sustained high growth. When factoring in all branches with considerable potential leverage — mining, energy, transport, and logistics — a full third of Chilean labor accounted for 45 percent of per capita production, which by then surpassed $5,000 per year.

Chile's new progressives governed a society in which extensive employment in highly valuable segments of production gave labor potent structural capacities. A comparison with Bolivia, its Andean neighbor similarly dependent on mineral extraction, underscores the intensity of the Chilean proletariat's potential leverage. When Evo Morales was elected in 2006, just over 22 percent of workers were employed in strategic sectors (half in manufacturing); together, they produced less than a third of national output, which, given the economy's underdevelopment, only generated $300 per capita each year. Mining added another $144 in output produced by less than 2 percent of the working population. But with informality nearly twice as high as in Chile, the Bolivian working class's already low potential leverage plunged further.

This enduring working-class base in high-end manufacturing gave the BCM regimes a capacity to take on capital that the Pink Tide governments did not have. Had they wedded a political strategy to the potential leverage housed in these sectors of the class, they would have secured a social power unique to the region. However, in spite of being better positioned to push through radical reform, the progressive neoliberal regimes in BCM opted not to tap into its labor constituencies' class capacity. They not only failed to mobilize their popular bases, but they proceeded instead to relentlessly weaken the most strategic sectors over time. They accelerated labor's fragmentation, while bolstering the economic concentration and political influence of capital.

Pro-capitalist restructuring might not have come as much of a surprise in Mexico, where the neo-conservative PAN took control of the state, but it certainly defied expectations in Brazil and Chile, where the Left had won power.

THE NEW CHAMPIONS OF BUSINESS

Post-authoritarian BCM rulers pursued a restructuring that exacerbated their extremely asymmetrical class relations. It involved ongoing structural transformation of their growth regimes and institutional changes in governance. Their active reshaping their countries' class structure entrenched inequality and escalated the gulf and insecurity within working classes.

BCM post-authoritarians advanced sectoral reconfiguration through ongoing liberalization and dissolved labor's organizational foundations. In all three countries, sustained trade opening and abandonment of industrial planning transferred hundreds of thousands of workers from manufacturing to either massive reserve armies or primary production and services. While significantly weakening the structural power of their working classes, the BCM progressives moved decisively to change their parties' political constituencies — from the labor organizations that had been their key social base, to the salaried classes and managerial elites, together with impoverished informal workers. The shift away from the industrial working class — both in development and organizational strategies — was most dramatic in Brazil.

During Lula's governments, the economy expanded nearly 300 percent in per capita terms, a massive enlargement mirroring the boom enjoyed by most regional economies. Industry grew at a slightly slower rate, expanding its value from $450 to $1,220 per person. The bulk of the expansion occurred in finance, retail, and services. Again, while growth rates in these areas matched overall expansion, output mushroomed from $1,530 to $4,350 per capita, accounting for nearly three-fifths of all output. Consequently, by 2009, when Dilma Rousseff entered office, industrial employment remained at the same level as when the PT assumed power, while the share of labor in services and retail reached 56 percent. By Dilma's 2016 ouster, manufacturing jobs had gone from 15 percent to 12.5 percent, while finance, retail, and services rose to close to two-thirds of all employment. Professed socialists transformed an economy in which workers had considerable structural capacity — leverage that might have been deployed to transform the economy into a modern and equitable model — into a typically split and low-road growth regime.[9]

Labor's structural depletion went hand in hand with associational disintegration. As increasing numbers entered informality and unprotected, low-productivity service work — against the backdrop of built-in joblessness — unionization fell accordingly. Considering the party's origins in organized industrial labor, union density contractions under the PT are bewildering. At Lula's election, union density stood at 20 percent. This figure was, in many ways, the vestige of prior organizing by the president and his comrades. However, after barely rising over his first

9 CEPALSTAT, "Structure of total employed population, by sector of economic activity, sex and geographical area (Brasil)." Available at cepalstat-prod.cepal.org/cepalstat/tabulador/ConsultaIntegrada.asp?idIndicador=122&idioma=i.

term, unionization has since contracted significantly. By the end of Lula's second presidency, it had declined by a quarter, only to continue its downward trajectory with Dilma. Union density losses in manufacturing were particularly pronounced under Lula's successor, falling by one-sixth to 18.5 percent in 2013, before the onset of depression.[10]

Returning to its historic roots, the PT might have revived the labor movement from the shop floor up. After all, even in Brazil's fractured economy, large concentrations of workers still toil in strategic nodes. Massive capital investments sunken into high-tech megaplants and infrastructure projects offered workers in advanced industries enormous leverage. But Lulismo expressly rejected this route for rebuilding a powerful workers' base. Throughout, Lula made conciliatory gestures to labor, like establishing multilateral bodies to consult labor, yet he evidently never considered actively rebuilding the movement from which he emerged. Instead, the PT used the central labor federation CUT as a recruiting ground for administrative cadre, while enacting or maintaining policies that helped fragment worker organizations. A 2008 reform, for instance, promoted the labor movement's splintering into a number of PT-allied federations.[11] On occasion, Lula even attacked his labor base, as when early in his first term he

10 Brazilian Institute of Geography and Statistics (IBGE), "In 2018, unionization falls in all categories and activities and reaches the lowest level in seven years," agenciadenoticias.ibge.gov.br/en/agencia-press-room/2185-news-agency/releases-en/26426-in-2018-unionization-falls-in-all-categories-and-activities-and-reaches-the-lowest-level-in-seven-years.

11 For a discussion of the complex antagonism between the allied unions and Lula's administrations, see Julián Gindin and Adalberto Cardoso, "The Labor Movement and the Erosion of Neoliberal Hegemony: Brazil and Argentina," in Eduardo Silva and Federico Rossi, eds., *Reshaping the Political Arena in Latin America: From Resisting Neoliberalism to the Second Incorporation* (Pittsburgh: University of Pittsburgh Press, 2018); and Angela Araújo and Roberto Verás de Oliveira, "El Sindicalismo Brasileño en la Era de Lula," *Revista Latinoamericana de Estudios del Trabajo* 1 (2011): 83–112.

rammed through a public-sector pension reform over the opposition of both the left wing of his party and state employee unions.[12]

As Lula presided over the shrinking and marginalization of the PT's union constituency, it became necessary to cultivate an alternative base of support. For this, he turned to the marginalized poor and liberal middle class. His pivot dispensed with his party's long-standing strategy of patiently constructing an activist base in combative labor and peasant organizing and rejecting pacts with right-wing parties. Whereas previously the PT pursued radical reform by building a disciplined apparatus among trade unionists in the country's economic and political heartland, and direct-action-oriented landless workers organized in the once formidable MST, after repeated electoral defeats in the 1990s, the party diversified its support base to include less programmatically committed professionals and clienteles among the extremely poor. In short, the PT refashioned its institutional apparatus, orienting from factories and plantations to cosmopolitan centers, favelas, and languishing towns in the underdeveloped northeast.[13]

Targeted welfare beneficiaries in the informal sector became key pieces in Lula's governing strategy. The PT found — indeed, partially fashioned — its new constituency through the expansion of assistance programs such as the highly touted conditional cash

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12 This gets at the heart of my characterization of the PT regime as progressive neoliberalism. My claim is not that Lula and the PT were enthusiastic ideological promoters of liberalization (an assertion that applies less controversially to the center-left Concertación in Chile). Undoubtedly, Lula was severely constrained by a harsh international context and a domestic arena dominated by bellicose economic and political elites. What is clear is that he did not hesitate to allow and even contribute to the erosion of labor's organizational capacities under these pressures. Whether or not he would have chosen to oversee labor's continued weakening absent these constraints, it *is* clear, first, that Lula opted to marginalize the labor movement as the PT's main constituency, and, second, that he was prepared to move against unions if they opposed his program. I address this question further when reviewing Lulismo's relationship with business elites below.

13 Francisco de Oliveira, "Lula in the Labyrinth," *New Left Review* 42 (2006): 5–22.

transfer (CTT) Bolsa Família. Lula and the PT relied on beneficiaries to cobble structurally powerless voting constellations that also provided bargaining chips for brokering increasingly convoluted governing alignments.

Beyond its obvious social benefits, expanding CTTs to previously neglected poor people in areas not governed by the PT facilitated alliances with local and state bosses from opposing parties. Mainstream and sympathetic analysts alike agree that Bolsa was instrumental in Lula's reelection and the PT's 2010 victory. Though not captive as in traditional patronage, Bolsa created political clients that could be bartered for alliances with local and provincial machines and who formed decisive blocs of atomized, indebted voters.[14] In short, Lula governed by trading the strategy he crafted in the 1970s and 1980s, that of organizing a disciplined base out of militant workers' struggles, for one of patronage among opportunist politicians and the informal poor. That is, the PT opted for political success predicated on transforming the party into a leading power broker at the center of Brazilian machine politics, and dissolving party ties to mass movements in favor of marginalized, passive clienteles.

The road to democratic neoliberal rule in Chile followed a similar pattern of dissolution of working-class capacities. As in Brazil, the first post-authoritarian decade in Chile witnessed an economic boom. Over the course of the first two Concertación terms, per capita output more than doubled. Yet the center-left enshrined natural commodity exports as the key engine of growth: whereas in the early 1990s, primary goods represented less than one-fifth of all exports, by 2010, they accounted for one-third.[15]

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14 Natasha Borges Sugiyama and Wendy Hunter, "Whither Clientelism? Good Governance and Brazil's Bolsa Família Program," *Comparative Politics* 46, no. 1 (2013): 43–62.

15 Ramón E. López, "Fiscal Policy in Chile: Promoting Faustian Growth?" Working Papers No. 143326, University of Maryland, 2011. Table 2.

Industrial production grew at a steady rate. Once more, however, retail, finance, and services emerged as the main domestic growth sectors. This pattern intensified over the 2000s: whereas manufacturing accounted for nearly 18 percent of all output in the first transition year, two decades later, after four center-left terms, the industrial share of production had fallen dramatically to less than 12 percent. Retail and services boomed, meanwhile, increasing its share of output to almost half. By then, the manufacturing share of the national labor force had collapsed from roughly 14 to 11 percent, whereas employment in retail and services rose to two-thirds of all workers.

In a bullishly expanding economy, the Socialist Party accumulation strategy, most recently under President Michelle Bachelet, eviscerated labor's structural power. Unsurprisingly, labor's associational capacity also eroded. Diminished workers' organization resulted from Concertación policy decisions and is evident in post-authoritarian unionization and industrial action patterns.

After its shattering under military rule and an aborted revival in the mid-1980s, the labor movement initiated a reconstruction campaign when democracy returned.[16] Following the transition, unions intensified organizational and recruitment drives, and even struck to press demands on the allied government. In the first two years of democratic rule, strikes increased by more than 40 percent, from 175 in 1990 to 250 in 1992. Larger numbers participated: in 1991, nearly 46,000 workers engaged in industrial actions, resulting in 750,000 lost production days. Of the 866 total stoppages conducted in the first four post-transition years, more than half hit manufacturing.[17]

16 Expectations of center-left responsiveness and commitments to its social base convinced workers to mount a short-lived offensive.

17 Estudios y Publicaciones, *Dirección de Trabajo*, "Huelgas y Negociaciones Colectivas 2001–2007" (2007): Table 3, dt.gob.cl/portal/1629/w3-article-62094.html.

Unionization rates appeared to confirm prospects for rebuilding the labor movement. Whereas repression and economic catastrophe sank union density to below 10 percent in the early 1980s, rates picked up sharply after 1989, nearly doubling to a promising 18 percent by 1991.[18] Rising industrial action and organizing reversed abruptly, however, as progressive governments spurned labor and entrenched flexibilized production. From their 1992 high point, strikes fell by half in 1998. By 2001, a decade into the democratic period, these dipped to a mere eighty-nine yearly strikes. The number of workers involved and the disruptive costs imposed on employers also sank to historic lows. By the end of the first post-dictatorship decade, only 10,500 Chilean workers withheld their labor, compared to the near fifty thousand who did so in 1991. By 2003, strikes resulted in an almost trivial 73,500 man-days lost, a mere tenth of what labor achieved ten years prior.[19] In 2005, there were a scant thirty strikes in manufacturing, nine in transport, and two in construction.

Center-left governments' unwillingness to reverse these developments only reinforced workers' powerlessness. Through the 2000s, weak labor protections and eroded collective bargaining rights persisted. Piecemeal reforms in 2001 and 2006, while granting some formal rights, all continued to increase worker fragmentation.[20] When the Concertación finally passed legislation in 2001, it did nothing to enhance employees' ability to strike

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18 Gonzalo Durán Sanhueza and Marco Kremerman Strajilevich, "Sindicatos y Negociación Colectiva," 2015.

19 Estudios y Publicaciones, *Dirección de Trajabo*, "Anuario Estadístico" (2013), Chapter 4, dt.gob.cl/portal/1629/w3-article-114262.html.

20 Maintaining fragmentation has been the cornerstone of center-left reform in Chile. As discussed below, Bachelet's 2016 labor reform continued to facilitate multiple bargaining units within shops.

and negotiate beyond individual firms.[21] Crucially, it left intact the fragmentation of bargaining units and employers' subcontracting prerogatives.[22] The resulting splintering of worker organization is astonishing. From 1996 to 2005, the total number of bargaining units grew from 7,500 to almost 9,500. Rather than increased labor capacity, however, union proliferation reflects further fragmentation, as plant and even subplant units exploded, the former growing by nearly a third and the latter doubling by 2010.[23]

As atomization undermined the utility of union membership, workers rationally abandoned efforts at pooling organizational resources and coordinating action at work. Indeed, as bargaining units multiplied, both unionized workers and those covered by negotiations contracted. Union density plummeted to roughly 11 percent, most severely impacting industrial production, where membership contracted by two-fifths.[24] As labor leaders failed to stop the bleeding, partisan officials offered no lifeline. Although new authorities relied on working-class votes, the Concertación feverishly eschewed the type of mass mobilization its parties promoted under ISI. Undermining popular organization became a sacred pillar of Socialist and Christian Democratic governing strategy.[25]

In Mexico, continued abandonment of corporatist developmentalism drove the disintegration of working-class capacities. As in Brazil and Chile, industrial restructuring carried out by the

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21 Volker Frank, "The Elusive Goal in Democratic Chile: Reforming the Pinochet Labor Legislation," *Latin American Politics and Society* 44, no. 1 (2002): 35–68.

22 Marcus Taylor, "Labor Reform and the Contradictions of 'Growth with Equity' in Post-Dictatorship Chile," *Latin American Perspectives* 31, no. 4 (2004): 76–93.

23 Dirección de Trabajo, 2013: Table 6.

24 Dirección de Trabajo, 2013: Table 4a.

25 Arturo Valenzuela, "The Chilean Miracle: Lessons of South America's Success Story," *Harvard International Review* 19, no. 4 (1997): 24.

2000–2012 PAN governments that succeeded authoritarian PRI rule devastated labor. Post-transition expansion in Mexico lagged behind the booming growth enjoyed by those countries, yet it nonetheless took off. After the disastrous 1990s, output nearly doubled between 1998 and 2008. During that period, even as assembly plants proliferated and industrial exports grew robustly, overall manufacturing output only expanded by half, from $1,080 to $1,560 USD per capita. Again, growth in services and retail were behind the economy's general expansion as the value of these sectors increased by 90 percent.

The pattern continued into the following decade. Over the first five years of the 2010s, manufacturing comprised only 17 percent of total output, whereas retail and service generated $5,574 USD per capita, accounting for 55 percent of the economy. Once more, the manufacturing workforce suffered relative declines. During the first fifteen post-transition years, the share of workers in industry fell from 20 percent to just above 15 percent. Meanwhile, those employed in retail and services shot up from around half to 57 percent of all workers. Neoliberal democrats oversaw a dramatic economic overhaul that sharply undermined what remained of labor's structural power.

Curiously, labor fragmentation resulting from sectoral transformations was not enshrined in and aggravated by labor policy modifications. Rather than adopt formal labor reform to shatter unions' associational capacities, Mexican neoliberals selectively deployed labor law that the authoritarian PRI had wielded to quash militant organizing and control the workers' movement. PANista Felipe Calderón only managed to enact mild labor changes. Formal policy continuity was embraced by all governments after 1988 because they adapted corporatist labor provisions to promote flexibilization of labor relations and employer dominance over increasingly feckless unions.[26]

Chief among these is monopoly representation and the clientelism it facilitated with labor officials. Mexican neoliberals thus turned the old labor code into an employer tool for circumventing labor rights, hiring and firing at will, and subcontracting with little oversight. Bargaining virtually vanished, and rights were ignored as union heads brokered pro-business "protection contracts" behind their members' backs. These practices prevailed in the *maquila* industry after the 1992 defeat of militant leaders ushered in labor peace as a prelude to NAFTA.[27] The forty-hour workweek won in 1982 became a vestige of the past, and wages continually eroded from their 1970s peak. The increasing irrelevance of unions led to a collapse in unionization. Between the early 1990s and 2008, for instance, membership in Mexico's two largest federations, the CT and the CTM, plunged from 2 to 1.24 million, and from 1.1 million to 750,000, respectively.[28] As unions were decimated, workers lost the necessary organizational and coordinational capacities to challenge employers. Strikes hit historic lows, dwindling to only eleven in 2010.[29]

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26 Jean François Mayer, "The Impact of Regime Change and Economic Restructuring on Mexico's Labor Relations, 1988–2012," in Paul W. Posner, Viviana Patroni, and Jean François Mayer, *Labor Politics in Latin America: Democracy and Worker Organization in the Neoliberal Era* (University Press of Florida, 2018).

27 David Bacon, "Workers Have the Confidence to Walk Out," *American Prospect*, February 6, 2019, https://prospect.org/article/lopez-obrador-workers-have-confidence-walk-out.

28 Mayer, "Regime Change," 97. The author also reports that "the membership of the CROM was reduced from 176,000 in 2000 to 81,000 by the end of the Fox government. For its part, the FSTSE, which also claimed more than two million members in the 1990s, saw its ranks melting to 740,000 workers by 2008 . . . The most plausible available numbers suggest a strong reduction in [UNT] membership from 1.3 million workers at the time of its founding in 1997, to roughly 600,000 members by 2010."

29 Mayer, "Regime Change," figure 4.3. By contrast, in 1993, the year before

CONCENTRATING THE POWER AND WEALTH OF BUSINESS

While the progressive neoliberal regimes shattered their labor constituents, they were far kinder to business. Progressive rulers recast relations between business and the state, enthusiastically ceding the upper hand. Like all managers of capitalist states, they faced the inescapable need to facilitate investment in order to secure growth and jobs and, by extension, votes for reelection. In some cases, elite pressures were magnified by the shaky position of newly elected progressives resulting from top-down democratic transition pacts. But unlike their subsequent Pink Tide counterparts, new progressive rulers in BCM hardly challenged business interests.

The neoliberal turn did not involve a withering of state intervention; rather, it worked to refashion and repurpose government involvement in the economy. States were transformed from an instrument for national and equitable development to a tool for promoting the expansion of competitive firms forged under ISI. Though post-authoritarian rulers proclaimed neo-developmentalist commitments to rebuilding equitable economies and reversing inequality, their main function was to promote corporate concentration. The result was a warped, extremely top-heavy economic formation, quite inimical to "growth with equity" ambitions. Particularly in Brazil and Chile, the new oligarchies fostered by these policies soaked up unimaginable rewards.

When Lula pivoted away from his working-class base, he embraced an accumulation model that placed the state at the disposal of Brazil's emerging industrial titans. The former unionist amplified the extensions of credit and foreign policy initiatives in the service of these corporate giants, marshaling unprecedented

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NAFTA was passed, there were 155 major strikes in Mexico.

public resources for the massive concentration and worldwide expansion of leading construction, engineering, meatpacking, and other agribusiness firms. At the end of his second term, Brazil boasted thirteen "global challenger" megacompanies poised to compete with the world's TNC (transnational corporations) heavy hitters. Of these, Petrobras, Odebrecht (engineering and construction), JBS (meatpacking), and Vale (mining), all mired in corruption scandals, came to dominate their industries regionally and even globally.

Vale, for instance, acquired Canadian giant Inco in 2006 for $17 billion, pushing Brazilian corporate investment abroad to nearly $30 billion that year.[30] JBS methodically swallowed up Swift Foods and Pilgrim's Pride between 2007 and 2009 — in part to leapfrog American tariffs — becoming almost overnight the world's largest producer of beef and pork, to the tune of $50 billion in annual sales. Odebrecht and Petrobras best illustrate the use of the state's muscle to clear the way for corporate expansion. Propelled by aggressive diplomacy and easy financing from Brazil's public development bank (BNDES), they obtained proliferating regional energy, engineering, and construction megaprojects lobbied by the PT apparatus. Simply stated, the PT deployed state power so Brazil's new oligarchs could design, tender, and capture massive public and private contracts abroad.[31]

When Lula was first elected, Brazil's major TNCs held $50 billion in foreign investments; by the end of his second term, they owned almost $200 billion in foreign assets, representing more than two-thirds of the country's international holdings. Lula

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30 Virginia Fontes and Ana Garcia, "Brazil's New Imperial Capitalism," *Socialist Register* 50 (2014): 300–20.

31 Pedro Henrique Campos, "The Transnationalisation of Brazilian Construction Companies," in Patrick Bond and Ana Garcia, eds., *BRICS: An Anti-Capitalist Critique* (Pluto Press, 2015).

effectively merged Brazil's public interests with those of its business empires, transforming powerful institutions for national development into an instrument for domestic and international corporate predation. The levels of concentration facilitated by the state were spectacular, including in agriculture.

In rural Brazil, for instance, the PT produced a reverse land reform, or a relatifundization, as it cut special deals with major agro-industrial players. Even as peasant organizations aligned with Lula clamored for land distribution, between his first year in office and 2009, properties over 1,000 hectares increased their holdings by more than two-thirds, ballooning to 300 million hectares and growing from 43 to 52 percent of all farm area.[32] One measure of overall corporate dominance is the number of firms per $1 trillion in GDP. By 2015, at the end of Dilma's tenure, Brazil boasted forty-eight, each with yearly revenue averaging $310 million. By comparison, Russia's respective figures are 187 and $188 million.

Hence, Lula brought his administration much closer to Brazilian business than anyone could have anticipated. This does not mean that his strategy did not yield immediate benefits to poor and working-class Brazilians, that he became a tool of the class itself, or that capital would defend him unconditionally. But as the PT transformed the state into an instrument for expansion and concentration of capital, business leadership appeared thoroughly satisfied. Big business, as I show below, only abandoned the PT when it could no longer deliver.

Upward wealth distribution was similar, if on a more modest scale, in Chile and Mexico. Corporate concentration in Chile had

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32 Simone Bohn, "Quasi-Post-Neoliberal Brazil: Social Change Amidst Elite Adaptation and Metamorphosis," in Liisa L. North and Timothy D. Clark, eds., *Dominant Elites in Latin America* (Palgrave Macmillan, 2018), 73. For an overview of agrarian concentration, see Luis Felipe Rincón and Bernardo M. Fernandes, "Territorial Dispossession: Dynamics of Capitalist Expansion in Rural Territories in South America," *Third World Quarterly* 39, no. 11 (2018): 2085–2102.

been mostly driven by privatizations under military rule. While privatization continued under the Concertación, trade, labor, and tax measures enacted by progressives all favored the largest corporations. These produced a significant alteration of business strategies. Whereas during the 1980s, capital formed horizontally linked conglomerates, known as *grupos económicos*, by the mid-1990s, propelled by center-left policies, leading firms adopted strategies pursuing the domination of whole areas and branches.[33] The result was less diversified operations that amassed unprecedented wealth in Chile's leading sectors. By the late 1990s, these firms, mainly in retail and natural commodities such as forestry and minerals, handily outperformed competitors. Through the 2000s, their revenue expanded by more than 10 percent annually, while smaller companies grew by 3 percent or less.[34]

Once more, apex companies emerged as regional players. By the end of the second decade of center-left rule, Chile's top twenty corporations were expanding their foreign assets by more than 17 percent each year. Focusing on forestry and wood pulp, companies like COPEC-Arauco, CMPC, and Masisa launched aggressive investment campaigns throughout South America. In 2009, for instance, CMPC acquired a wood and pulp plant in Brazil for $1.4 billion USD.[35] SQM, a company notorious for its

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33 Alex Medina Giacomozzi, Alexis Constanzo Hidalgo, and Rodrigo Sandoval Soto, "Estrategias de diversificación y concentración empleadas por las sociedades anónimas en Chile," *Contaduría y administración* 57 no. 4 (2012), 55–77. On the emergence of Chile's *grupos ecconómicos*, see Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (New York: Routledge, 2019).

34 José Miguel Benavente and Cintia Külzer, "Creación y destrucción de empresas en Chile," *Estudios de economía* 35, no. 2 (2008): 215–39. Unsurprisingly, while dominant firms thrived, smaller, less influential ones went under at a yearly rate of 13 percent.

35 Felipe Muñoz, Miguel Pérez Ludeña, and Dan Poniachik, "A snapshot of Chile's 20 largest multinational enterprises in 2011: sustained growth in South

cross-partisan connections, went on a global shopping spree.[36] Consequently, concentration rates exceed those in Brazil: when Bachelet returned to power in 2015, Chile had forty-five firms per trillion dollars of output, each with yearly revenue averaging $560 million. This makes the Indian economy, with respective figures of seventy-four and $237 million, look like a meritocracy.[37]

In Mexico, concentration was similarly facilitated by the state's embrace of privatization and free trade. Two poles emerged as the great winners: assembly manufacturing, or the *maquila* sector, and agro-industry along its vibrant northern corridor, and energy and telecommunications linked to fully or partially privatized state-owned enterprises. Once again, the consequences have been astonishing. When the PRI returned to power, the country had sixty-two firms per trillion dollars of output, each with average yearly revenues of $345 million. Post-authoritarian neoliberal progressives created an economy as concentrated in relative terms as China.

By the mid-2010s, BCM figured as three of the four most concentrated economies in the region. The advantages progressives offered business leaders gave firms unprecedented confidence. With the friendliest of environments all but guaranteeing healthy profits, capitalists invested with alacrity. Though much of the capital entering their economies reflected takeovers and strategic acquisitions, business in all three countries sunk large sums into new plant. Robust investment is revealed in capital formation rates. As Figure 2 shows, gross fixed capital formation grew at healthy

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America," *LC/W* 544 (2013).

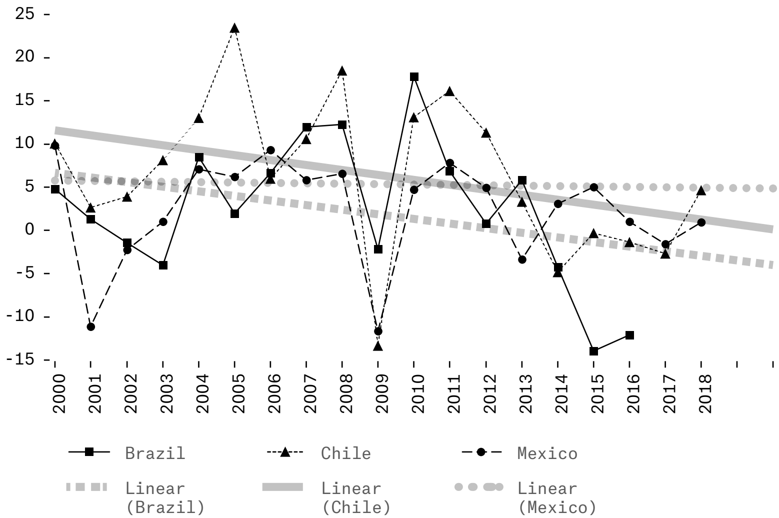
36 After announcing partnerships with a Canadian multinational, SQM, a world leader in lithium and iodine production, branched out to manufacture fertilizers and other downstream products throughout the world, including in China.

37 *Latin America's Missing Middle: Rebooting Inclusive Growth*, McKinsey Global Institute, 2019.

rates over the course of the 2000s. Investment was greatest in Chile, where after an early-decade dip, capital formation hit historic levels by the mid-2000s. In Mexico and Brazil, the frenzy was more restrained.

Still, once the PRI gave up its hold on the state in Mexico, and after Lula finally won elections in Brazil, investment recovered from severe slumps. After one term of post-PRI democratic rule, annual yearly investment expanded by 10 percent. As for Brazil, capital responded to Lulismo with aplomb, exceeding 12 percent investment in 2008 and then reaching 18 percent following a brief contraction triggered by the great recession. Capitalist euphoria, however, soon hit a wall. The confidence that characterized new oligarchies in BCM was undermined by the unexpected impacts of growing institutional decay. The form in which the decomposition interacted with intensifying insecurity among the working classes shaped the recent collapses experienced in the three countries.

Figure 2. Gross fixed capital formation (annual % growth)



THE POLITICAL ECONOMY OF MASS INSECURITY

While progressive neoliberals extended all manner of assurances and guarantees to business, they aggravated the mass insecurity among the laboring classes. Two factors fueled working-class vulnerability in the BCM countries. The first, alluded to above, was the persistence and recent expansion of the informal sector. The second was the degradation of welfare provision. What's more, the form taken by the destruction of workers' safety nets in BCM would prove to be politically decisive.[38]

Post-authoritarian rulers worsened precarious conditions of labor by entrenching informality. Had BCM progressives pushed to transform their economies like their developmentalist predecessors, they might have transferred large fractions of marginalized workers into protected, formal employment. Instead, they made peace with vast informality as a permanent, even desirable, feature.

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38 This is not to disregard real gains made by sections of BCM labor, mainly among formal-sector workers. By 2014, for instance, average real wages in Brazil were 10 percent higher than before the 2002 crash, and the minimum wage had nearly doubled. Mexican real wages had increased by about one-quarter, and the minimum wage had expanded by one-tenth relative to its 2000 level. Average gains were most dramatic in Chile, where real wages grew by one-fifth between 2000 and 2018 alone, following a near 25 percent increase over the previous decade; its minimum wage had doubled in the first post-authoritarian decade, expanding by another 65 percent since 2000. As impressive as these gains were, they stand out only in relation to levels that prevailed in the early neoliberal period and look far more modest when placed in an extended historical perspective. Gains in real average wages and the minimum pale in comparison to their pre-neoliberal patterns. Brazil's real minimum wage, for instance, did not recover its early 1980s level until after Lula's first term. And whereas real wages have been pushed up by one-tenth under the PT, they had doubled from the early 1970s to the mid '80s. In Mexico, the legal wage floor only returned to its mid-1990s level, and in 2017, it was only one-third what it had been prior to the 1982 peso crash. Average Mexican wages, meanwhile, lag far behind their late-1970s zenith. For the long-term trends, see Pablo Astorga Junquera, "Functional Inequality in Latin America: News from the Twentieth Century," in Luis Bértola and Jeffrey Williamson, eds., *Has Latin American Inequality Changed Direction?: Looking Over the Long Run* (Springer Nature, 2017), Appendix: Figure A2.

The actual levels of informality that new democratic governments reproduced are worse than described above. More reliable evidence shows that millions more working families faced grimmer prospects than indicated by ECLAC's already catastrophic statistics. Including non-wage workers operating mainly as underground *cuentapropistas* ("self-employed and freelancers"), informality notches up significantly. In Chile, this measure of unprotected, atomized work experienced an unwieldy expansion during Bachelet's second term, reaching 44 percent by 2018.[39]

This adjustment raises informality to 46 percent the last year of PT rule in Brazil, and to 54 percent in Mexico on the eve of AMLO's election. Between the 1995 crash and 2010 alone, Mexico's informal workforce ballooned from 9 to 12 million. Over a decade or two of progressive BCM rule, baseline insecurity for popular sectors intensified, reaching roughly half of workers or more.

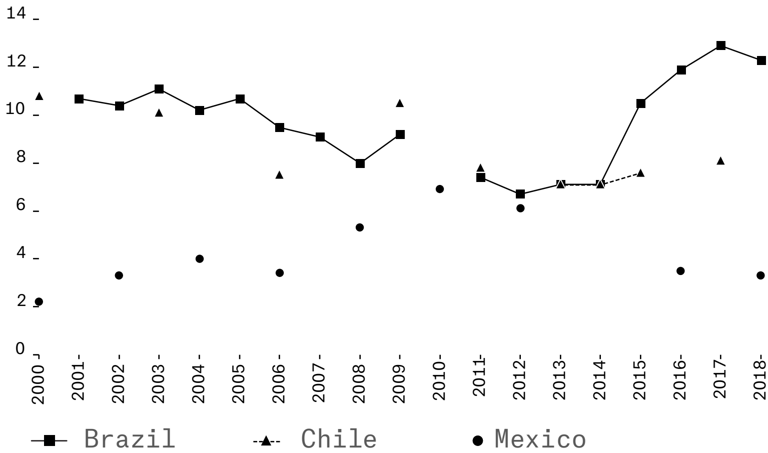
Persistently high rates of informality reflect the hidden face of unemployment. In all three countries, unemployment remained at intolerably elevated levels that continually undercut labor's capacities. Chile's center-left Concertación coalition was deemed an exemplary economic performer, while the PT in Brazil was said to hit upon a formula for robust growth beginning in Lula's second term. In the former case, however, official, or unhidden, joblessness was consistently high, averaging 8.5 percent over the last two decades.

Real BCM joblessness was even worse. Open urban unemployment averaged one-tenth during Lula's tenure. Although Chile's numbers improved slightly during the 2000s, unemployment climbed back over 10 percent by the end of the decade. The jobs landscape in Mexico looks more humane, although unemployment

39 International Labour Organization, *Women and Men in the Informal Economy: A Statistical Picture*, International Labour Organization, 2018 (Third Edition).

doubled to 7 percent during the Great Recession, thanks to dependence on the US economy. But Mexico's rosier jobs picture is an artifact of the emigration escape valve. Although the recession significantly curtailed labor migration, roughly 2.5 percent of Mexican men regularly sought employment across the border.[40] BCM progressives embraced their neoliberal models' structural inability to absorb workers into stable employment.

Figure 3. Open Urban Unemployment



The upshot of roughly 10 percent unemployment and half of those "employed" surviving in the economy's wild underbelly was devastating not only for informal households but for the entire working class. Consignment to informality was a sentence to poverty and marginality. Informal workers were twice as likely to live in destitution. In Brazil, for instance, despite PT policies helping to lift tens

40 Andrés Villarreal, "Explaining the Decline in Mexico-US Migration: The Effect of the Great Recession," *Demography* 51, no. 6 (2014): 2203–28. Migrants are essentially economic refugees escaping horrible labor market conditions. Villarreal explains that they are twice as likely to be unemployed than their non-migrating peers.

of millions “into the middle class,” poverty remained grotesquely high.[41] Otherworldly wealth creation and an expansion of targeted social provision still left 7.5 million in indigence following the mid-2000s boom. Those trapped in the harshest rungs of informality, moving in and out of odd jobs or tossed out of paid work altogether, comprised a full one-fifth of the labor force that made less than half the minimum wage.[42]

Mexico, where informality expanded precipitously under post-authoritarian neoliberalism, fared no better. One in seven Mexicans survived on less than the $5 USD daily minimum, while the mean hourly wage remained below $2.50 USD in 2014.[43] A decade of post-PRI democracy redounded in a quarter of the population experiencing food insecurity, 30 percent lacking health services, and twice that amount without adequate pensions.[44] In 1992, as the PRI planned the democratic transition and ramped up liberalization, indigence and poverty stood at 21.5 percent

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41 For mainstream journalistic examples of the adulation of alleged upward mobility under Lula, see Alexei Barrionuevo, “Strong Economy Propels Brazil to World Stage,” *New York Times* July 31, 2008; Matt Moffett, “Brazil Joins Front Rank of New Economic Powers,” *Wall Street Journal* May 13, 2008; John Parker, “Burgeoning Bourgeoisie: A Special Report on the New Middle Classes in Emerging Markets,” *Economist* February 14, 2009. Scholarly accounts of praise heaped onto Lula and the PT can be found in Jan Peter Wogart, “Global Booms and Busts: How Is Brazil’s Middle Class Faring?” *Brazilian Journal of Political Economy* 30, no. 3 (2010), scielo.br/scielo.php?pid=S0101-31572010000300002&script=sci_arttext#tx01.

42 IBGE, Summary of Social Indicators (2012), Table 2.14. Available at www.ibge.gov.br/en/statistics/multi-domain/living-conditions-poverty-and-inequality/18704-summary-of-social-indicators.html.

43 Christine Murray, “Mexico manufacturing surge hides low-wage drag on economy,” Reuters, June 2, 2014, reuters.com/article/us-mexico-economy-analysis/mexico-manufacturing-surge-hides-low-wage-drag-on-economy-idUSKBN0ED20H20140602.

44 John Scott, Enrique de la Rosa, and Rodrigo Aranda Balcazar, “Inequality and Fiscal Redistribution in Mexico: 1992–2015.” WIDER Working Paper No. 2017/194, 2017. Figure 2.

and 53 percent, respectively; nearly twenty years later, the rates were still mired at 20.5 percent and 53 percent. It is not hyperbole to state that market democracy has brought *no* gains to the working class.

But this permanent underworld had wider effects. It undercut the working classes in the formal sector, constantly obstructing a coordinated exercise of their preserved potential leverage. An accumulation strategy designed to reproduce and preserve half of the workforce within unregulated, backward activities minimizes incentives for organizing and mobilizing industrial action. Considering the life-shattering costs of being swapped out for desperate workers eager for stability and protection, however degraded and below the going wage rate, the rational position of formal employees is to minimize ever-present risks and accede to employer demands.

Even with higher skill sets among formal workers and the transition costs of replacing them, expending effort to organize the shop floor is often pointless. Attempts to exercise structural leverage by striking can be ruinous even for workers positioned in strategical nodes. Further, built-in joblessness and underemployment are a destructive drag on the whole system. Last century, developmentalist managers turned "unlimited supplies" of marginal labor into a dynamic input for growth.[45] Today's modernizing progressives are content to bolster, rather than leverage, a dualist system, confining up to half the working population to a segregated arena of unproductive work. These governments, in practice, further fractured working-class power and entrenched a dualized political economy through social provision policies.

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45 W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," *The Manchester School* 22, no. 2 (1954): 139–91.

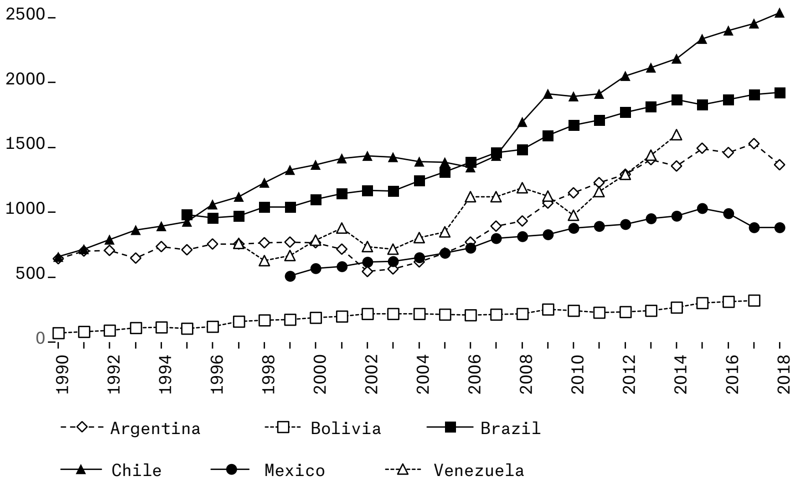
DISMANTLED AND DUALIZING WELFARE STATES

BCM neoliberalism began increasing social spending even before the Pink Tide took robust measures to address the welfare of its informal sector constituencies. As democratic regimes, they were forced to respond to heightened risks and distress generated by market reform. All three countries established or solidified dualist welfare systems that polarized provision in different ways.

Whereas Brazil, and to a lesser extent Mexico, relied on targeted poverty relief, often in the form of conditional cash transfers, Chile, though raising public welfare spending considerably, pursued direct market mechanisms for social provision. The programs adopted in each case, however, prolonged or aggravated the material insecurity constantly threatening popular sectors. In the context of widening working-class fragmentation and reshaped state-elite relations, these welfare institutions produced decisive political ramifications.

Acknowledging the "social debt" amassed under the dictatorship, the center-left ruling coalition in Chile used rising revenues from high growth rates to double social expenditures over their first decade in office (see Figure 4). Although state welfare allocations only rose by 1 percentage point in relation to GDP, by 1997, per capita spending had grown by nearly 90 percent. Over the next decade, welfare expansion slowed substantially, growing by just 20 percent by the end of Concertación's third term. Welfare increases in Brazil during Cardoso's administrations and Lula's first term, although more linear, closely match Chilean spending, growing from $983 USD to $1,460 USD per person. In both cases, welfare outlays as a share of GDP progressed slowly from roughly 11 to 14 percent, with minor spurts and bumps along the way. Post-authoritarian social spending in Mexico grew more modestly until very recently, rising from $583 USD per person when Vicente Fox Quesada assumed office in 2001 to $1,030 USD three years into the PRI's 2012 return to power.

Figure 4. Public Social Expenditure (in constant per capita U$)



More significant than amounts disbursed were the design and logic of social programs. Chilean progressives adhered faithfully to market mechanisms. This was particularly evident in health care and retirement policies predicated on privatized plans. This orthodox approach explains the slowing of public spending during the second half of the 1990s and its momentary reversal thereafter. After the "social debt" to its mass base was attended to, primarily through spending for basic education, health, and community programs for indigent and peripheral sectors, the Concertación coalition halted outlays (Socialist president Ricardo Lagos cut per capita spending by $100 USD in his outgoing years), redoubling its embrace of commodified pensions (pension fund administrators) and health insurance schemes (isapres).

Coverage is individualized and laden with risk, requiring employees to pay into their pensions and health insurance. If low wages or joblessness prevent contributions, workers simply forego retirement savings; conversely, workers with higher incomes pay premiums for better health coverage. Second, after inordinate portions of individual contributions covered exorbitant administrative costs and executive salaries, funds were channeled into financial speculation, undermining worker protections and guarantees.[46] Millions of Chileans unable to secure pensions or medical insurance on the market find themselves relegated to second-class public provision or lack protection altogether. Increases in spending since 2008 did little to alter Chile's dualist welfare commodification; in fact, Concertación welfare innovations largely reinforced the market-based structure of social provision.

With the Orwellian title of "Solidarity Pillar," Bachelet's social security reform provided emergency pensions for those without savings or supplemented individual contributions that fell below a minimum.[47] When Bachelet returned to power, "solidarity" pensions offered well under half the minimum wage to just over half of informal sector retirees.[48] Although it consolidated a strand of

46 Isapres, for instance, are veritable financial firms, belonging to multinational holding companies, that generate billionaire profits for conglomerates. In 2017, for instance, Banmédica, formerly part of the domestic Penta conglomerate and more recently acquired by the American UnitedHealth group, generated $34 million USD in profits. UnitedHealth, ranking fifth on the Fortune 500, reported assets worth $175 billion in 2019. See "Las utilidades de las isapres que nadie quiere tocar," Fundación Sol, 2018, fundacionsol.cl/2018/05/utilidades-isapres-nadie-quiere-tocar/. Isapre profits reached roughly $100 million in 2018, the most recent year of Concertación rule.

47 For a description of Chile's scant social security modifications, see Jennifer Pribble and Evelyne Huber, "Social Policy and Redistribution: Chile and Uruguay," in Steven Levitsky and Kenneth M. Roberts, eds., *The Resurgence of the Latin American Left* (Baltimore: Johns Hopkins University Press, 2011).

48 Candelaria Garay, *Social Policy Expansion in Latin America* (Cambridge University Press, 2016), 291.

assistance targeting the extreme poor, its main effect has been to subsidize financialized, market-based pensions. By further polarizing welfare between private coverage and paltry public relief, Chile's center-left steadfastly deepened the country's dualist system of provision, intensifying insecurity among growing swaths of workers.

Brazil exemplifies a different form of polarized insecurity built around means-tested transfers to the indigent. Whereas welfare provision in Chile is split between market-based coverage and baseline relief, Brazil's dualism pits remnants of former Estado Novo corporatist protections for registered employees against far-reaching cash assistance for informal paupers. Rather than push workers to contribute individually through savings plans and premiums, Brazilian progressives perfected conditional cash transfers to the millions permanently removed from the formal sphere.

The flagship CTT, inherited from Cardoso and massively amplified under the Workers' Party, is Bolsa Família*.* Offering cash assistance to Brazilians who fall below a low cutoff and meet various health and educational requirements, Bolsa is meant to guarantee minimal subsistence for families on the edge of absolute destitution. The program gives families classified as poor (those making up to R$ 178, or less than $50 USD per month) a sum of R$ 41 (less than $10 USD) per child or pregnant woman in the household. Families in extreme poverty, surviving on less than R$ 89 ($24 USD) a month, receive a supplement intended to boost incomes past this near-starvation threshold. During Lula's first term, beneficiaries mushroomed from 3.6 million to more than 11 million. By the end of Dilma's second term, another 3 million recipients were added — together, enrollment grew fourfold.

Bolsa, the cornerstone of PTista welfare strategy, was carried out on the cheap. The poverty reduction program reaches one-quarter of all Brazilian households yet comes at a business-friendly price tag of $8 billion USD, a mere 2.5 percent of public spending. So, while the post-authoritarian state diverts minimal outlays for the poorest 50 million Brazilians barely surviving in informality, it continues to spend orders of magnitude more on social provision designed for formal-sector workers.

Whereas expenditures disbursed for social protection reached one-seventh of GDP under the PT, only half of 1 percent was allocated to Bolsa. Keeping social expenditures at this level aligned with Lula's expressed aim of increasing primary surpluses. In sum, rather than push to integrate welfare spending into class-wide, solidaristic programs, the labor party exacerbated the divisions between workers fully incorporated into social citizenship and those trapped in marginality.

Mexico's post-authoritarian welfare approach somewhat mirrored Brazil's dual system. It similarly comprised residual features of pre-democratic corporatism side by side with new, targeted assistance for the extreme poor. The shift to means-tested welfare responded to three by-now-familiar factors. First, recurrent crises and rising deficits under corporatist ISI promoted slashed public provision in pursuit of fiscal discipline. As the state cut food and energy subsidies, along with infrastructure and commercialization projects for rural and underdeveloped urban areas, policymakers adopted less costly targeted cash vouchers and grants. Second, developmentalist supports were barriers to commercial liberalization. As the state prepared the ground for free trade, it was compelled to eliminate credits and protections that shielded local producers from foreign competition. Targeted relief programs closed part of the gap, again on the cheap, for income lost by small rural producers and employees of domestic manufacturing firms that streamlined or went under. Finally, and relatedly, as growing numbers of agricultural and industrial laborers lost their jobs, the state pivoted to assistance programs delinked from formal employment in order to reach beneficiaries. Thus, as the neoliberal Mexican state continued to meet its mounting obligations for workers still covered by weakened corporatist social provision, it, too, began diverting revenues to programs targeting masses tossed out of the formal economy.

The transformations in welfare spending also entrenched the polarized nature of social provision in post-authoritarian Mexico, yet in less politically contentious ways. CTTs were first adopted in 1994, under the last PRI administration of Ernesto Zedillo (1994–2000). Unlike in Chile, where most workers scrambled for commodified provision, or in Brazil, where one-fourth of the population received targeted relief, the scope of post-PRI provisional reform was far more restricted. Cash supports expanded in the waning years of PRI rule and the first years under Fox, after which increases in recipients trailed off completely.[49] As they stagnated under the two PAN governments, CTTs enjoyed wide, cross-partisan approval. As the center-left PRD moderated its opposition to deregulation and softened its advocacy of broad forms of nationalist-corporatist provision, direct cash transfers become the consensus poverty-reducing policy tool. Throughout the 2000s, after the PRI lost power, more than three-fifths of all workers fully lacked retirement social security. Yet as expenditures for pensions and contributory health plans increased to more than 5 percent of GDP, direct cash and food transfers languished below 1 percent.[50] Simultaneously, the state designed other forms of non-cash transfers targeting impoverished, peripheral communities. These "innovations" redirected spending from more comprehensive subsidies protecting the urban poor to individualized assistance for the extreme poor in the countryside (under

49 Garay, *Social Policy*, 243.

50 Scott, de la Rosa, and Aranda, "Inequality."

the rubric of PROCAMPO) and narrow community enhancements linked to the mainstay CTT program, founded in 1997 as Progresa and recently renamed Prospera.

The redesign of social provision under progressive neoliberalism had negative consequences. Switching to market-dependent coverage and conditional transfers for the indigent not only deepened the gulf dividing workers in Brazil, Chile, and Mexico. It also confined center-left state managers to relief and welfare schemes wholly inadequate for looming downturns. Perhaps more important, social provision shifts had a decisive influence on the class orientation of popular fury when difficulties began threatening post-authoritarian regimes. In sum, BCM governments not only bolstered capital, concentrating business to the extent it effectively captured the state, but their "pro-poor" orientation itself became a major drawback. The manner in which these novel progressive regimes dispensed social assistance contributed to the absence of unified, class-wide challenges when they unraveled.

THE FAILURE OF DEMOCRATIC NEOLIBERALISM

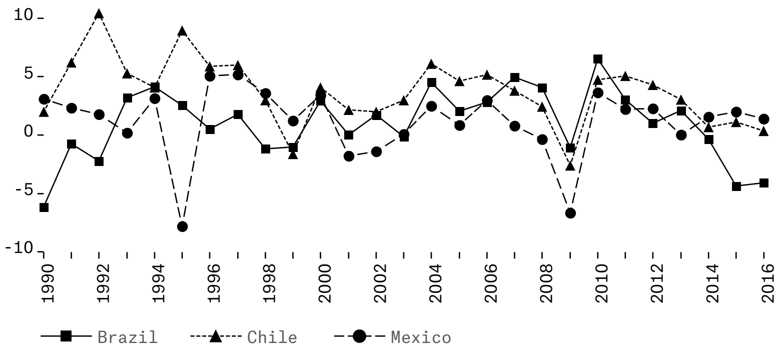
Compared to Pink Tide countries, post-authoritarian rulers in BCM managed and maintained the neoliberal turn with impressive efficacy and stability. Initial unrest provoked by their market revolutions was suppressed by the military in Chile and the "soft" PRI dictatorship in Mexico, while in Brazil, the PT's predecessors absorbed early instability. Having weathered the early turbulence, the new democratic progressives adroitly managed the next stages of liberalization. For roughly two decades, from the late 1990s to the end of the 2010s, they achieved relatively stable and striving market orders through the policies and features described above: concentration of business into dominant oligarchies alongside fragmentation of the working class. Though these aspects were crucial in reproducing more vibrant neoliberal formations, ultimately, they failed. The very features that sustained BCM neoliberalism later unleashed tensions and challenges that caught up with and undermined their regimes.

Trouble accelerated for BCM neoliberals as state promotion of plutocracy bred institutional decay, and as insecurity among popular sectors burgeoned into full-blown legitimacy crises. Following a short-lived rebound from the 2008–2009 global recession, the institutional mechanisms for promoting upward wealth redistribution broke down, pushing top business sectors to lose confidence in their erstwhile champions. On the other side, stagnation and downturns that set in by the mid-2010s exacerbated material and physical strain, driving key sections of the working class toward rebellion.

In Brazil, and to a lesser extent Chile, fusion of governance with capitalist interests failed to sustain investment, and, as it became an object of contention, compromised profitability. In Mexico, post-corporatist state transformation helped detonate a wave of violence and chaos that eventually undermined basic rules of property and competition. Meanwhile, mounting popular frustration flipped growing numbers of workers against progressive leaders in crucially politicized ways. In Brazil, revanchist segments turned on the discredited PT and the extreme poor that benefited from PTista welfare. In Mexico, pushed to the edge by perpetual stagnation and spiraling violence, poor masses abandoned the entire post-authoritarian partisan spectrum seeking national "refoundation." In Chile, marginalized sectors spontaneously rebelled against the pro-market partisan consensus, throwing their weight behind reforms proposed by the revived militancy of limited working-class sections.

Capitalist euphoria, prominent until roughly 2010, abated as BCM profitability hit a wall. In all three countries, the state was unable to restore growth following the Great Recession (see Figure 5). The downturn was most pronounced in Brazil, where annual per capita output plummeted from 6.5 percent growth in 2010 to a 4.5 percent contraction in 2015. The staggering decline stands in stark contrast to the near 4 percent annual per capita expansion during most of Lula's time in office. Although Chile did not experience an outright recession, the bullish growth that characterized the preceding two decades evaporated.[51] Since 2011, when output momentarily edged back toward 1990s levels, the economy slid unyieldingly toward stagnation. Mexico exhibited the worst performance throughout. While it posted average per capita annual growth rates of 2 percent in the ten years following the 1995 crash, Mexico's economy has virtually stood still. But BCM states not only failed to replicate the investment fervor of the pre-recession years. In addition, state sponsorship of business profits broke down and devolved into a liability.

Figure 5. GDPPC Growth



In Brazil, ironically, the PT's overtures to business undermined the state's ability to continue promoting oligarchic interests. Systemic fraud was not merely a built-in and unavoidable residue of

51 From the time the Concertación took over in 1990 until it lost power in 2010, per person output averaged over 4 percent (nearly 6 percent over the first ten years).

Brazil's famously byzantine and splintered political system; the PT adopted it as a method of rule. Lulismo managed the state through bribery of federal rivals, horse trading with provincial machines, and appropriations in the billions. It built pacts with sub-federal bosses, swapping clienteles to cobble together winning voting bases on the one hand, and brokering kickbacks from giant corporations on the other.

This ruling strategy became evident from the onset in what became known as the Mensalão, or "mega-monthly payment" scandal. Support from formal allies and unofficial partners for its legislative agenda was purchased with payments orchestrated by party lieutenants like PT president José Genoíno and party founder, top strategist, and Lula chief of staff José Dirceu.[52] Cash funneled to legislators came from regular corporate payments solicited in exchange for colossal government contracts. The scandal revealed the extent to which a party of workers delivered itself into the grip of big business.[53]

Corruption got so out of hand that the state lost its handle on this key governance tool. The scope of state-business interpenetration was later revealed by Lava Jato investigations looking into

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52 The schemes of another top operator, Antonio Palocci, demonstrate the increasing reliance on and escalation of the PT's new ruling strategy. Palocci, a former student radical like Dirceu, and later a rising star in the new 1970s labor movement that spawned the PT, perhaps best embodies the pivot from disciplined party-building to ruling through corruption. In 2006, he was forced to resign as Lula's powerful finance minister when he could not shake Mensalão allegations and is now serving a prison sentence for corruption.

53 My analysis of the demise of the PT regime differs from many left accounts of developments leading up to Dilma's 2016 impeachment. A common explanation asserts that elites seized on an opportunity to organize the PT's ouster from government. From this perspective, corruption scandals, while not fabricated, were distorted and hypocritical exaggerations, exploited by business adversaries to unfairly persecute and finally take down a labor-based regime. Within this general approach, Benjamin Fogel argues that sections of capital not aligned with Lulismo gained the upper hand in the decisive moments leading up to the parliamentary coup. See Fogel, "Brazil's Never-Ending Crisis," *Catalyst* 3, no. 2 (2018): 73–99.

a massive kickback and laundering scheme the PT mounted to escalate clandestine financing of its own politicians and wavering coalition partners. By 2016, scores of politicians had been indicted or investigated, among them more than a dozen PT parliamentarians and even more former allies. Embezzled funds were diverted from the state oil company Petrobras, turning the would-be engine of national development into a cash cow for Brazil's politicians and a wealth multiplier for Latin America's most powerful capitalist empires. At least $2.5 billion were embezzled from the public oil giant; billions more were lost in irregular tax exemptions.[54] (This money alone could have increased Bolsa assistance by at least 50 percent.) The scale of the scheme that was unearthed as Brazil fell into recession led to its mass politicization.

As business concerns over the grumbling grew, elite political and media sectors began conspiring to oust Dilma in what amounted to a soft coup less than two years after her legitimate reelection. Growing popular revulsion gave impetus to more aggressive judiciary and legislative prosecution.[55] More significantly, this widening sentiment soon pushed sections of the political class to abandon coalitional deal-making and embrace all-out anti-PTismo. Eduardo Cunha, head of the linchpin party in the PT's pragmatic coalition, executed the decisive turnaround.

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54 In another illustration of the PT's governing strategy, Odebrecht executives created a slush fund, dubbed the "Amigo" account, for Lula's discretionary use as he managed his successor's ascent.

55 The so-called judicialization of politics, although led by crusading anti-PT judge (and subsequent Bolsonaro justice minister) Sérgio Moro and instrumentalized for Dilma's 2016 ouster, reflected widening public opinion, rooted in middle-class outrage, that found no outlet in conventional partisan politics. From this perspective, it was not necessarily key sections of business that led the drive to oust Dilma. More likely, political and media adversaries — including middle-class networks and right-wing parties, along with opportunist allies who saw the occasion to try their luck at ruling — initiated the impeachment drive that weakened Dilma and compelled big business, which was also damaged by growing investigations, to support the anti-PT operation.

Himself implicated in the Petrobras scandal, Cunha successfully marshaled a pro-impeachment majority, including holdout centrist Brazilian Democratic Movement (PMDB) parliamentarians and cabinet members such as Dilma's VP and successor, Michel Temer.

As the PT's strategy for promoting corporate expansion came under fire, it could no longer ensure business profits. Profitability had held firm through Lula's two terms, but it foundered beginning in 2009. Between then and 2015, when the anti-PT campaign intensified, gross profits fell by almost half.[56] Although fabulously prosperous and reaching unseen measures of concentration, business oligarchs lost confidence in the tool that had guaranteed their undisputed accumulation and stopped investing. Fixed capital formation sank from a high of 18 percent of GDP to -14 percent on the eve of Dilma's ouster. The PT completed the transformation of the Brazilian state from a developmentalist paradigm to a new instrument for capitalist predation, but it could no longer entice business to invest.

The failure of Chile's progressive neoliberalism similarly stemmed from the political class's overriding pro-business consensus. When accumulation began to falter after 2010, the state was unable to adjust, even as its standing among popular masses rapidly deteriorated. Like in Brazil, snowballing corruption scandals rocked the regime, laying bare the exclusivity of its class character. Progressive neoliberals' corporate allegiance was so overwhelming, however, that they could only offer more of the same. There were no populist feints or new versions of neoliberalism by surprise, only a sort of neoliberalism by principle.[57]

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56 Izabela Karpowicz, Fabian Lipinsky, and Jongho Park, "A Closer Look at Sectoral Financial Linkages in Brazil I: Corporations' Financial Statements," International Monetary Fund Working Paper No. 16/45 (2016), 5.

57 For an account of 1990s presidents who campaigned on populist promises only to impose market reforms once elected, see Susan C. Stokes, *Mandates*

The boomerang effect of progressive neoliberals' devotion to business culminated during Bachelet's second term. Her late 2013 election came after the failures of the first center-right government headed by Sebastián Piñera (2010–2014). As working-class frustrations grew, the return of center-left rule generated expectations for reform. Unlike in Brazil, where the PT wove alliances with right-wing parties, Bachelet turned to the Left for reinforcement. Coming not long after massive 2011–2012 student mobilizations, her campaign incorporated the Communist Party. Chile's historic workers' party, battered under the military and sidelined after democratic transition, had reemerged with renewed credibility owing to the its youth wing's leading role in the movement.

Following a close runoff, Bachelet instituted a set of reforms aimed at addressing demands for change in education, labor markets, electoral representation, and entrenched inequality more generally. Hoping to surpass the restrained measures of her first presidency — e.g., the minor 2008 pension reform — Bachelet's expanded Nueva Mayoría coalition first changed electoral laws to make representation more proportional, and next adopted tax reform intended to raise revenues by preventing evasion and closing a massive capital gains loophole. Soon thereafter, her government pushed through a series of amendments to education law and then passed labor reform in 2016. These measures, however, preserved the broad contours of Chile's fractured political economy.

A series of scandals that dominated Chilean politics after Bachelet's return underscored overarching continuity and dissolved what remained of the regime's legitimacy. Unlike Brazil's notoriously corrupt institutions, the Chilean state had a reputation for transparency and clean government. Yet handing the state

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and Democracy: Neoliberalism by Surprise in Latin America (Cambridge University Press, 2001).

over to business generated a similar pattern of capture and corruption that prominently featured SQM, the mining and chemical giant favored under prior Concertacíon rule. Previously, Penta, a financial conglomerate worth $30 billion, had been first charged with establishing a tax evasion scheme in exchange for unlawfully financing right-wing parties. SQM, however, had spread its influence across the political class, illegally funding both coalitions. Between 2009 and the center-left's 2014 return to power, SQM channeled $5 million to eight parties. SQM's influence was so extensive that its executives were able to conspire with Chile's top brokerage firm to fix stock market prices and collect hundreds of millions of dollars in extra dividends, all while provoking nearly $1 billion in losses for privatized pension funds.[58]

Chile's increasingly marginalized working class perceived the underlying purpose of Bachelet's reforms. Although they were unquestionably concessions to prior mobilizations' costly disruptions, their implementation was designed to protect Chile's new oligarchy's exorbitant wealth. As investment waned, Bachelet's broadened left coalition redoubled its commitment to business. Despite marginal benefits to popular sectors, tax reform preserved the regressive nature of Chile's tributary system, educational reform maintained profits in the privatized university system, and labor reform further promoted work flexibilization. To illustrate, the redistributive impact of tax reform was trivial, producing a 0.007-point drop in income Gini scores, while the effects of increasing social spending revenues were negligible.[59] In the meantime,

58 In February 2015, another controversy involving Bachelet's family underscored the positioning of center-left neoliberals for ordinary Chileans. The day after her election, a real estate company, Caval, secured a $9.2 million bank loan as a favor to Bachelet's son. In exchange, local authorities rezoned an area in which Caval had recently made investments, enabling overnight millionaire profits.

59 Bernardo Candia and Eduardo Engel, "Taxes, Transfers and Income Distribution in Chile: Incorporating Undistributed Profits," Working Paper No. 82, Tulane

the income shares of top 1 percent and 0.01 percent of earners remained the highest in the world.[60]

Against the backdrop of unbending devotion to business, Chile's workers rejected the reforms one after another. Within a year of the tax reform, for instance, disapproval of the legislation jumped from 40 to 60 percent. Ordinary Chileans likewise rejected education and labor reforms: nearly a year after tuition changes were made, over 70 percent opposed the measures; labor market changes, in turn, were rejected by 65 percent immediately after their adoption.[61]

In 2010, the center-right coalition attempted to reestablish business confidence, but rising unrest spooked corporate elites and provoked a steep investment decline. After investment reached nearly one-sixth of GDP in 2011, capital formation fell to -5 percent in 2014. Bachelet's second election stopped the bleeding but stabilized investment rates at a historically low level. Despite her best efforts, profit rates never recovered. Neither center-left nor center-right forces could restore an attractive environment. Capital was stuck with a neoliberal duopoly incapable of steering Chile back to growth and profitability.

In Mexico, erosion of state capacity to foster corporate expansion also arose from its pro-business transformation, yet it followed a distinctive path. Top state managers' dismantling of former corporatist governance institutions generated inadvertent threats to business. When partisan and economic competition replaced

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University, Department of Economics, 2018.

60 Tasha Fairfield and Michel Jorratt De Luis. "Top Income Shares, Business Profits, and Effective Tax Rates in Contemporary Chile," *Review of Income and Wealth* 62 (2016): S120–44. Fairfield and Jorratt note that, excluding capital gains, "[w]hen profits are adjusted to national accounts, Chile's top 1 percent share surpasses all other countries in the World Top Incomes Database." See Figure 3.

61 "Encuesta Plaza Pública," CADEM No. 204, February 11, 2017, cadem.cl/wp-content/uploads/2017/12/Track-PP-204-DicS2-VF-1.pdf

PRI-dominated coordination of politics and profits, the opening also exposed the Mexican economy to destabilizing cartels. As trafficking groups asserted themselves amid an anemic legal economy and deteriorating governance institutions, the chaos engendered by narco expansion and conflict further dampened business prospects.[62]

As growth and investment sputtered, the forceful entry by unbridled cartels into the new political economy threatened leading business interests. The relentless narco-economy spread and burrowed into every level of Mexico's governance institutions.[63] The rise of narco-dominance and brutality is inextricably linked to the dismantling of the corporatist state's coordination of the drug trade during the neoliberal turn.[64] The arrangement began dissolving in the 1990s as partisan competition undermined PRI dominance in key northern and western states and as state institutions crumbled under the weight of deregulation and retrenchment.[65] More

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62 The effects of exponential cartel expansion and the underground economy on politics of the region has received insufficient attention among radical scholars and activists. The proliferation of powerful clandestine actors and violence in this growing sphere is having key consequences on governing arrangements in general and working cases in particular. Recently, mainstream political scientists have begun grappling with the impacts of violence on the state. Deborah Yashar's impressive book *Homicidal Ecologies: Illicit Economies and Complicit States in Latin America* (Cambridge University Press, 2018) offers a useful, although incomplete, comparative framework for explaining the rise of the clandestine economy and violence in the region.

63 Supplying a US drug market worth more than $100 billion, Mexican cartels export from $40 to $65 billion in drugs, reaping yearly profits estimated at $30 billion (UNODC World Drug Report, 2011).

64 The pre-neoliberal state used its centralized coordinating capacity to distribute and manage turfs and routes. Violence was not only suppressed by well-functioning security and partisan apparatuses, cartels had less incentive to challenge the corporatist-narco pact by confronting the state and/or rivals. See Viridiana Rios, "How Government Coordination Controlled Organized Crime: The Case of Mexico's Cocaine Markets," *Journal of Conflict Resolution* 59, no. 8 (2015): 1433–54.

65 For cartels, electoral defeats of former government patrons and the state's diminishing ability to impose order offered new opportunities for enrichment. A

aggressive cartel strategies in the late 1990s and early 2000s provoked worrisome rises in violence. As narco-corporatism unraveled and killings spiked, the state, now with the PAN in power, made the vital and ill-conceived decision to mobilize an all-out assault on cartels. Felipe Calderón's drug war, however, only exacerbated violence, as the state unintentionally provoked, intensified, and dispersed narco feuds.[66]

As the military decapitated cartels, these fragmented and, lacking coordination, ventured out to confront new rivals carved out of their own fractured organizations as well as splinters from other destabilized groups. Cartels were incentivized not just to brutalize rivals but to terrorize officials and publics perceived to impede expansion. They have overrun hollowed-out governing institutions and branched into other billion-dollar industries, legal and not. Anarchic struggles to subordinate adversaries, reconfigure alliances and routes, and capture other branches through coercion amount to a generalized civil conflict that imperils baseline stability and reliability required for accumulation.

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representative example is the case of the Gulf Cartel and Los Zetas, their previous armed wing. During the late 1990s, as public retrenchment weakened security institutions, the cartel was successful at infiltrating the military in the state of Tamaulipas and proceeded to recruit former soldiers into its own armed apparatus.

66 See Eduardo Guerrero Gutiérrez, "La estrategia fallida," *Nexos* (2012). It is not uncommon for some analysists to argue that the war on drugs simply hides a new alliance between the state and the Sinaloa Cartel, formerly headed by Joaquín "El Chapo" Guzmán. See, for instance, Malcolm Beith, "A Broken Mexico: Allegations of Collusion Between the Sinaloa Cartel and Mexican Political Parties," *Small Wars & Insurgencies* 22, no. 5 (2011): 787–806; and Christopher Woody, "The rise and fall of Joaquín 'El Chapo' Guzmán, the world's most ambitious drug lord," *Business Insider* January 19, 2017, businessinsider.com/the-history-of-el-chapo-guzman-sinaloa-cartel-chief-drug-lord-2017-1. Woody reports that "[t]he conservative National Action Party, or PAN, has also been accused of favoring the Sinaloa cartel, with PAN Presidents Vicente Fox and Felipe Calderon launching numerous offensives against Sinaloa enemies." These claims miss the complete transformation of relations between the state and trafficking organizations and the resulting dissolution of coordinating links between ruling institutions and splintering cartels.

Widespread bloodshed and institutional collapse directly challenged profitability in Mexico. Although the conflict never produced Brazil's murder rates, it decisively impacted increasingly vulnerable Mexican economic elites. Brazilian business, indifferent to the physical insecurity primarily affecting the poor, prospered with state decomposition. The combination of violence and institutional breakdown in Mexico, however, encroached on corporate returns. Whereas business share of overall income steadily rose to a whopping 82 percent in 2015, profit rates suffered a sharp decline beginning in 2010.[67] If the collapse of the PT's ruling strategy left corporate elites orphaned, the disintegration of post-authoritarian market governance in Mexico pushed key sections of business to seek alternative and more reliable political arrangements.[68]

INTENSIFYING POPULAR INSECURITY

As business lost its confidence in the regimes and began to pull back, BCM working masses were pushed over the precipice. Workers in Pink Tide countries had suffered the shocks of abrupt liberalization; in their BCM counterparts, laboring classes accumulated deprivations, unmet expectations, and worsening

67 Carlos A. Ibarra and Jaime Ros, "The Decline of the Labour Share in Mexico: 1990–2015," WIDER Working Paper No. 183 (2017): 30.

68 In some respects, the slowdown of investment following the loss of business confidence was a capital strike. But I argue that it was not an investment strike in the classical sense. Typically, business stops investing as a measure aimed at punishing governments for adopting pro-labor policies that eat into profits and forcing them to reverse reforms. Exemplary cases were Chile under Allende and France under François Mitterrand. Failing BCM regimes faced a different sort of disinvestment. My view is that, as global economic conditions were dragging all three economies down, business turned to their states with the expectation that they would successfully create conditions for their renewed expansion. Capitalists stopped investing when effective mechanisms of the past stopped working, not because states were encroaching on corporate revenue or prerogatives. The main problem is that BCM regimes had no ability to switch to new, effective accumulation strategies.

vulnerabilities over extended periods. Neoliberalism ultimately drove poor masses into fitful discontent and revolt. Their insurgencies were catalyzed by drops in living standards, at times precipitous, that began around 2015, and spiraling threats of physical insecurity. As will be discussed in the last section, the fragmentation and dualization of BCM working classes impeded concerted class-wide rebellions.

Many apologists of progressive neoliberalism concede that, although these regimes failed to challenge capital, they at least succeeded in implementing working-class protections and boosting the living standards of the poor. In fact, BCM neoliberals failed on both counts. A core contention of post-authoritarian neoliberals was that besides reducing poverty, the new market order promoted more egalitarian resource distribution over time. They typically pointed to measures like the Gini index. Officially, income inequality was steadily beat back, as Gini coefficients fell by one-tenth in Brazil and Chile, formerly the region's most unequal countries (see Figure 6). Actual records, however, cast doubt on claims of progress. First, official rates in Mexico scarcely budged. Second, given the degree of initial disparities, even posited reductions are frustratingly inadequate. Official improvements are so languid, they barely scratch the surface of the redistributive needs in BCM.[69] Third, official reductions have reversed over the last five years, highlighting the unsustainability, alongside the inadequacy, of egalitarian trends under progressive neoliberalism.

More accurate measures reveal that BCM countries remain as unequal as ever. Calculations based on Brazilian national accounts show a glacial Gini dip from 0.64 when Lula was first elected to

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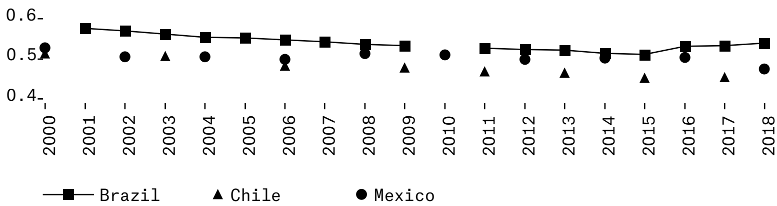
69 Present-day scores mirror inequality in late-nineteenth-century Chile and 1920 Brazil, hardly a context in which workers would wish to try their luck. See Bértola and Williamson, *Latin American Inequality*, Chapters 1, 2 & 5.

0.62 during Dilma's final year. Over the dozen-plus years of PT rule, the poorest 50 percent continued to earn the same as the top one-thousandth. Estimates from more careful Chilean household surveys furnish the same picture of extreme inequality frozen in time: during two decades of Concertación rule, Gini coefficients only fell from 0.57 to 0.55, and the top-decile-to-bottom-half ratio remained untouched.[70] Unsurprisingly, the petrification of inequality and hardship led entire sections of the working class to withdraw consent to the neoliberal order.

Figure 6. Inequality (Official Gini Coefficient)



In Brazil, popular vulnerabilities were exacerbated when the country plunged into recession following Dilma's reelection. Reductions in extreme poverty under Lula were tenuous at best. By one measure — a $5 USD per day threshold — a full quarter of Brazilians were indigent when the PT lost power. Under Dilma, things deteriorated for the tens of millions of Brazilians stuck in or backsliding into the lowest rungs of the reserve army. By 2015, well over one-fifth survived on less than half the minimum wage. Vast swaths concentrated in slums, from megacities to small provincial towns, now lost their shaky grip even on informal jobs and fell permanently below these stunted averages. Sentenced to the economic margins, nearly one in four households lacked access to

70 See Figure 13 in Marc Morgan, "Extreme and Persistent Inequality: New Evidence for Brazil Combining National Accounts, Surveys and Fiscal Data, 2001–2015," (2017) and Table 3 in López, "Fiscal Policy in Chile."

schooling, while one in three went without sanitary services like sewage and potable water.[71]

Underscoring the inadequacy of programs like Bolsa, nearly one-eighth of Brazilians lacked any social protection whatsoever. Before the worst of the recession, Brazilian workers reacted as best they could to the post-rebound squeeze. In 2013, after two years that saw GDP growth come to a screeching halt, poor youth in São Paolo protested massively against announced bus fare hikes. Yet absent labor associational capacities that might have coordinated the explosive unrest, mobilizations diffused into expressions of multiple and incoherent grievances.[72]

The unrelenting recession that ended up wiping out 8 percent of the economy stretched workers to the limit.[73] As the budget deficit ballooned from 6 to 10 percent in 2015, Dilma, following the fiscal conservatism at the heart of PTismo, opted for harsh austerity. The contraction, unsurprisingly, deepened. With back-to-back years of negative growth, joblessness breached the 10 percent mark Lula symbolically held, reaching nearly 12 percent at Dilma's ouster (by 2017, it climbed further to one-seventh of the workforce).

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71 IBGE, Summary of Social Indicators (2015), Table 7.7. Available at ibge.gov.br/en/statistics/multi-domain/living-conditions-poverty-and-inequality/18704-summary-of-social-indicators.html.

72 Alfredo Saad-Filho, "Mass Protests under 'Left Neoliberalism': Brazil, June–July 2013," *Critical Sociology* 39, no. 5 (2013): 657–69. See also Abigail Friendly, "Urban Policy, Social Movements, and the Right to the City in Brazil," *Latin American Perspectives* 44, no. 2 (2017): 132–48.

73 Following the short 2010 rebound from the global crash, Brazil resumed its economic slump. By 2013, Dilma contained the slide with an infusion of spending aimed at boosting support before her reelection campaign. The hike in government expenditures, however, was immediately reversed after voting, as it aggravated the mounting fiscal crisis and current account deficits. With output falling, Dilma first doubled interest rates — their rise from 8 percent in late 2013 to nearly 16 percent just before 2016 further cooled domestic investment — and then slowed outlays over those years.

The impact on the working class, already vulnerable under the disarticulated Lulista growth model, was crushing and wide. Workers without a high school education were particularly hard hit; but even college graduates and lower-level professionals were stung, as the number of highly educated without work climbed to 8 percent over the three years leading to 2016.[74] The worst hit, naturally, were informal workers tossed back into the reserve army or forced to accept wages further withered by intensified competition. Two years of recession under Dilma wiped out the fragile gains made under Lula.[75] Adding to workers' escalating precarity, fiscal tightening brought social spending to a grinding halt. By 2016, Dilma's administration was cutting health and education budgets.

Reliance on harsh informality bred escalating violence in megalopolitan favelas and provincial towns that increasingly brimmed over into middle layers.[76] Although the first PT government had reduced homicides, the improvement proved fleeting, and by the end of Dilma's first term, murders spiked to unprecedented highs.

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74 CEPALSTAT, "Brasil."

75 The 2014–2016 contraction resulted in a 5 percent income loss for the bottom half of income earners — the half of Brazilians left vulnerable by nearly fifteen years of PTismo. See Laura Carvalho, "How did the Brazilian economy help to elect Bolsonaro?", LSE Latin America and Caribbean Blog, October 2, 2019, blogs.lse.ac.uk/latamcaribbean/2019/10/02/how-did-the-brazilian-economy-help-to-elect-bolsonaro/. The data presented by Carvalho on income decline is taken from the World Inequality Database (2019).

76 Like in the United States, many Latin American radical scholars and activists tend to avoid wrestling with violence and insecurity in the region. Rising crime and homicides are having significant effects on working-class behaviors and attitudes. Growing concerns for safety and civil protections in particular are shaping popular policy and political preferences, especially in the absence of organizational and programmatic strategies that offer fair and solidaristic approaches to the problem. Often, the dearth of attention paid to these matters appears to stem from a fear among progressives of blaming the victims of crime and violence. The void in terms of both left analyses and political tactics has allowed mainstream and conservative scholars and right-wing politicians to dominate on these issues. The Left must acknowledge and come up with public solutions that place elite decisions and the underlying political economy at the center of the problem.

Although overall homicides continued to decline in the largest cities, primarily Rio de Janeiro and São Paolo, they exploded in Brazil's peripheries. Murder rates in Rio's favelas, for instance, reached fifty-two — two and a half times the per capita killings during the worst bloodletting in Mexico.[77] In neighborhoods disputed by opposing gangs, homicides ranged from 100 to 150 per 100,000 residents. The outskirts of some favelas thus produced rates approximating the worst moments of the Syrian war.[78]

Medium-size cities and smaller towns far from national centers of power often fared equally badly or worse. On average, northern and northeastern states were up to three times deadlier than southeastern urban centers.[79] The recession stoked a savage resurgence in crime and violence that shattered all previous records.[80] Throughout poor communities, working Brazilians watched as neighbors, disproportionately children and adolescents, were mowed down in raging firefights at dystopian rates.[81]

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77 Christovam Barcellos and Alba Zaluar, "Homicides and Territorial Struggles in Rio de Janeiro Favelas," *Rev. Saúde Pública* 48, no. 1 (2014): 94–102.

78 Many cities and towns engulfed in gang and police combat were governed by the PT or allied mayors. Rio is a case in point: Eduardo Paes, the mayor who oversaw the unraveling of UPPs (Pacifying Police Units) into shoot-to-kill commandos, is a member of the PMDB, a key coalition partner of Lula's party.

79 Even before Brazil fell into a sharp recession, the backwater states of Alagoas and Piauí had respective murder rates of seventy and eighty, the same levels routinely exhibited in Rio's war-stricken favelas (see Julio Jacobo Waiselfisz, "Mapa da Violência: os jovens no Brasil," Rio de Janeiro: FLASCO-Brasil, 2014). State security forces exacerbated the violence. Beginning in the late 2000s, municipal police departments occupied the favelas, inflaming local turf wars. The UPPs that deployed into Rio's favelas in 2008 initially helped reduce police murders from 1,330 in 2007 to 420 in 2012. But the recession's intensification of informality and crime rekindled confrontation and indiscriminate executions, pushing killings to nearly 1,000 in 2016.

80 Instituto Igarapé, "O que explica a grande queda no índice de homicídios no Brasil?" Nota Técnica, April 2019, igarape.org.br/nota-tecnica-o-que-explica-a-grande-queda-no-indice-de-homicidios-no-brasil/.

81 By 2015, the murder rate for sixteen-year-olds was forty per 100,000; for eighteen-year-olds, it soared to sixty (Julio Jacobo Waiselfisz, *Mapa da Violência 2016:*

Escalating crime and deteriorating public safety, while most intense in peripheral neighborhoods and states, spread to broader social sectors. Given the private security infrastructure and physical isolation that shielded elites from the worst of the crime wave, middle layers became particularly vulnerable. While favelas became trafficking war zones, middle-class and professional neighborhoods were increasingly prone to muggings and burglary. In the first two years of the downturn, violent property crimes spiked by 25 percent from an already exorbitant point. By 2016, nearly six hundred thousand burglaries were being reported yearly in Brazil. While the poor feared for their lives, the middle class felt continually tormented. Under progressive neoliberalism, economic and physical terror in the daily lives of working Brazilians was real and cataclysmic.

In Mexico, working-class insecurity under progressive neoliberalism did not suffer a precipitating blow like Brazil's 2014 recession. Rather, Mexican masses faced mounting vulnerabilities as broader swaths were driven into brutal informality penetrated by narco-violence. The perilous reality of popular sectors is rooted in agrarian transformations accelerated by liberalization, in particular the 1994 free trade agreement.

NAFTA upended Mexico's countryside by simultaneously gutting subsistence and traditional cultivation and dynamizing nontraditional agro-industrial production. Trends in corn production and prices illustrate the devastation. By end of the 1990s, prices had fallen by nearly half, pushing about half of the roughly 4 million corn producers out of farming. The influx of cheaply produced US corn provoked the mass expulsion. Meanwhile, NAFTA opened opportunities for highly capitalized production

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Homicídios por Armas de Fogo no Brasil (FLASCO-Brasil 2016), 50. In Fortaleza, the capital of Ceará, one of the country's deadliest states, teenage killings exploded from under 200 in 2000 to 1,150 in 2017.

of nontraditional crops. As large firms introduced leading technologies into export production, Mexican agribusiness trade grew to $67 billion in 2014. Despite rising productivity, Mexico's transformed agrarian system could not absorb the millions of small and *ejidal* farmers tossed out of agriculture. Long after the immediate shock of agricultural liberalization, rural livelihoods continued to erode. Between 2000 and 2015, the percentage of rural inhabitants employed — legally, at least — in agriculture plummeted from nearly two-thirds to just 45 percent on the eve of AMLO's election. As noted, Mexico's market order offered no dependable alternatives. Manufacturing under liberalization thrived, yet industrial employment stopped expanding. Promising job creation through the early 2000s in border assembly plants flatlined, provoking significant declines among the highest working-class wages beginning in 2013. With formal manufacturing employment saturated, millions more Mexicans were driven to the mushrooming informal retail and self-employment sectors. But their low productivity and armies of new entrants intractably compressed wages.

In their despair, thousands upon thousands enlisted as farmworkers, logistics workers, or foot soldiers of bustling cartels. Their transport hubs and routes to the US market ran up Mexico's coasts, often through the regions and towns hardest hit by agricultural collapse, deindustrialization, and surging informality. Narco organizations moved aggressively into these depressed areas to found and manage plantations and to establish and defend new infrastructure. In this dynamic and volatile context, cartels flexed their growing capacity, bullying their way into legal industries such as oil production and transport. Drawn by high wages and upward mobility unavailable in the legal neoliberal economy, entire regional working-class cohorts supplied the drug operations, further fueling narco-violence. In short, the narco political economy offered livelihoods for hundreds of thousands of marginalized peasants and workers, but it did so at an exacting cost.

In the first four years of Calderón's administration, for instance, drug-related killings swelled by 450 percent. While violence ebbed at the start of Enrique Peña Nieto's government, cartels soon reasserted themselves, resulting in about 25,000 yearly killings. By the end of his tenure, more than 250,000 lives were taken by the violence (the per capita equivalent of 650,000 deaths in the United States). Increasingly indiscriminate, violence has spread from its original hot spots along trafficking circuits. With few checks on their brutality, it became rational way traffickers to diffuse conflict, even at the risk of massive collateral damage, as the 2014 case of the Ayotzinapa students illustrates. The disappearance of forty-three radical rural teachers' college students is not an aberration. Experts estimate that roughly fifty thousand Mexicans have been abducted and buried in mass graves since the drug war was launched.[82] Under three post-authoritarian administrations, the original dislocations wreaked by liberalization and state retrenchment were compounded by generalized fear and physical insecurity.

Entrenched inequality and destitution also pushed Chile's popular sectors to withdraw consent to progressive neoliberalism. Even without war-torn conditions like Mexico's or a devastating economic crash like Brazil's, entire sections Chile's working class are confined to an immutable apartheid arrangement under both alternating center-right and center-left coalitions in power. With GDP stagnating and job creation halted, the modest redistributive reforms during Bachelet's second term offered insufficient relief against mounting insecurity. When she was succeeded

82 The all-pervasive violence has introduced another player in the conflict, self-defense units that responded to the inefficacy of state institutions by arming and training themselves, imposing harsh forms of local authoritarian rule.

again by Sebastián Piñera in 2018, reliable calculations placed the poverty rate somewhere between 25 and 30 percent.[83] The World Bank itself corroborates the frozen destitution of Chile's poor, estimating that any gains in poverty reduction derived from Nueva Mayoría's reforms were almost entirely wiped out by the tax system's enduring regressiveness.[84] In a wealthy country where per capita income reached $16,000 USD, minimum wage doesn't even cover a basic food basket. Yet half of all Chileans are forced to subsist on less than 70 percent of the minimum wage, while retirees survive on pensions that average one-third of that abysmal floor.[85]

Chilean workers responded to their catastrophic conditions with a renewal of mass protest. Unlike in Mexico and Brazil, where working-class organization declined further during the final phase of neoliberal failure, Chile's working class partially revived its capacity for collective action, setting the stage for the regime's breakdown. Among the first indicators of rebuilt organizational resources were a 2007–2009 wave of wildcat strikes coordinated by outsourced mining employees and a massive 2011–2012 student movement against privatized education.[86] Revitalization of worker protest emerged amid crises of representation in the party system and the labor movement. Mass marginalization from partisan

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83 Gonzalo Durán and Marco Kremerman, "La pobreza del 'modelo' chileno: la insuficiencia de los ingresos del trabajo y pensiones." Ideas para el Buen Vivir, No. 13 (2018).

84 Sandra Martinez-Aguilar, Alan Fuchs, Eduardo Ortiz-Juarez, and Giselle Del Carmen. "The Impact of Fiscal Policy on Inequality and Poverty in Chile," World Bank, 2017. See Figure 8. According to the World Bank's analysis, increased social spending following Bachelet's tax reform did benefit the extreme poor — but only slightly: the net impact of transfers reduced extreme poverty by 2 percent.

85 fundacionsol.cl/graficos/el-chile-del-50-del-1-del-01-y-del-001/

86 René Rojas, "Chilean Student Movement Challenging Neoliberalism: The Return of the Penguins!" *Against the Current* 27, no. 1 (2012): 21.

politics might have been avoided if the 2014 electoral reforms had arrived earlier. Changes under Bachelet replaced the binomial system, which effectively shut out challengers by conferring two seats in each district to top vote-getters, with a restrictive form of proportional representation. Insurgents broke into parliament in the first post-reform elections when a new left, the Frente Amplio (FA), formed around three of the student radicals voted into congress in 2013 who remained independent of Nueva Mayoría. FA won 20 percent of first-round votes in 2017 and obtained more than one-eighth of lower house seats in its first running.[87] This radical bloc that criticized the center-left's shortcomings and began pushing for genuine changes to the neoliberal model, however, failed to encompass and galvanize rising discontent. Similarly, the Communist-dominated labor confederation CUT, which enjoyed newfound prominence when industrial protest escalated, ended up stymieing growing militance. Although the mineworker resurgence was led by Communists, incorporation into government altered the party's labor strategy. As it shifted to influence policy through expanding its official institutional presence, the Communist Party defended its positions in locals and the CUT with fraudulent representational claims.[88]

Untrusting of center-left parties and the official labor movement, insurgent workers began building their own associational capacities and deploying them to coordinate the exercise of structural leverage in key sectors. After their low point in the mid-2000s,

87 For a brief analysis of the 2017 elections and the optimism they elicited, see René Rojas, "The Return of Chile's Left," *Jacobin* December 6, 2017, jacobinmag.com/2017/12/chile-elections-frente-amplio-concertation.

88 For a description of Communist-organized fraud that tarnished recent CUT elections, see "Centrales de trabajadores: No más de 13% de representación y divisiones internas que complican a las dirigencias," *El Libero* May 8, 2019, ellibero.cl/actualidad/centrales-de-trabajadores-no-mas-de-13-de-representacion-y-divisiones-internas-que-complican-a-las-dirigencias/.

labor actions began expanding in the 2010s. By 2013, miners, dockworkers, and teachers were shutting down their sectors in yearly rounds of mobilization.[89] That year, officially recognized private-sector strikes doubled from 2005 levels, surpassing 200. More important, public-sector and wildcat strikes injected a militancy unseen in Chile in decades. By 2016, there were nearly 150 yearly wildcat stoppages and an equal number of public employee strikes.[90] Workers' actions recovered in a number of key sectors imbued with high levels of structural leverage. By 2017, as Bachelet's failed second term was ending, there were nearly forty strikes in manufacturing, more than thirty in ports and logistics, nearly thirty in education, and over a dozen in mining.[91] As the working class rejected Bachelet's reforms, they found no institutional conduit for their grievances. Yet, although in highly uneven ways, they managed to begin rebuilding new associational power. The failures of what had been stable and vigorous neoliberal regimes set the stage for their precipitous collapses.

THE UNRAVELING OF POST-AUTHORITARIAN NEOLIBERALISM

Over the past two years, neoliberal regimes in BCM succumbed to the political fallout of their escalating failures. Growing vulnerabilities among both business and working classes led to irreparable breakdowns of key intermediation mechanisms with the state. The combined ways in which business and the working class repudiated post-authoritarian neoliberalism framed its collapse in each

89 René Rojas, "Out of the Ashes: The Resurrection of the Chilean Labor Movement," *New Labor Forum* 25, no. 2 (2016): 36–46.

90 Francisca Gutiérrez, Rodrigo Medal, Domingo Pérez, and Diego Velásquez, *Informe Huelgas Laborales en Chile 2017*, Observatorio de Huelgas Laborales (2018).

91 Gutiérrez et al., *Informe Huelgas*, Figure 6, 16.

country. Business leaders either withdrew their support completely or lost the ability to translate their preferences into reliable policy outcomes. They waited for new options to show viability, actively sought alternatives, or stubbornly stuck with extant ineffectual promoters of their interests. Meanwhile, as regimes descended into full-blown legitimacy crises, decisive sections of labor and the poor got behind new anti-establishment programs and politicians. Neoliberalism's social toll on popular sectors fueled indignation and resentment. Outrage accumulated until particular institutional constellations and opportunities wrought by regime shortfalls allowed it to boil over into insurgency. The shape taken by mass outrage was largely determined by progressives' restructuring of BCM working classes. Most crucially, popular sectors' weakness precluded moving mass discontent in a genuine and sustained progressive direction. Following the working classes' persistent fragmentation, the enduring and even growing scope of informality, and the deep intralabor divides driven by BCM welfare policies, workers and the poor lacked the unity and organizational wherewithal to push toward egalitarian and broadly democratic reforms. No longer even minimally represented by progressive neoliberals, popular masses oriented to law-and-order revanchism, backed left-populist promises of national refoundation, or exploded into anti- and extra-parliamentary rebellion.

The unraveling of progressive neoliberalism was most shocking in Brazil. Two key developments encouraged right-wing outsider Jair Bolsonaro's rise. The crumbling of the state's mechanisms for promoting business interests merged with the popular embrace of right-wing demagoguery. The ouster of the PT only prolonged neoliberalism's failure. Elites who believed the pre-PT guarantors would get state-facilitated business dominance back on track were disappointed by President Michel Temer's "Bridge to the Future" recovery program.

Following impeachment, the PMDB, in tacit alliance with the PSDB, restored neither growth nor legitimacy.[92] By the middle of 2017, the cumulative contraction of 8 percent had been curbed, yet stagnation ensued. Following labor reform that promoted even more flexibilized work relations, listless job creation brought unemployment down slightly from 14 percent, but mostly on the basis of informal or outsourced hires.[93] Temer's government actually increased Bolsa beneficiaries after Dilma cut off 500,000 families. In short, the two-year post-Dilma interregnum deepened the regime's failure, pushing its collapse further along a reactionary path.

Bolsonaro's rise exploited the breakdown of the state-business partnership. Destabilization of the state's sponsorship of big business opened his field of maneuver in the electoral arena. When capital lost confidence in the PT's ability to uphold its strategy for corporate expansion, business tolerated — and some sections even encouraged — impeachment, hoping traditional neoliberal stalwarts would succeed where Dilma failed. But unable to replicate systemic corruption as a key governance tool, the PMDB and the PSDB proved ineffectual, and the party system disintegrated further. Business was left with no secure option: with PTismo toppled, the rest of the transactional political class offered no viable alternative.

Many on the Left asserted that disgruntled corporate elites orchestrated Dilma's ouster over profligate social spending and the state's alleged neo-developmentalism. Yet, as discussed, neither feature had perturbed business's faith in the PT; indeed, the

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92 Vitor Eduardo Schincariol and Paris Yeros, "The Political Economy of 'Impeachment' in Brazil: An Assessment of the Temer Interlude (2016–2018)," *Revista Galega de Economía* 28, no. 1 (2019): 73–90.

93 "One year on, Brazil's labor reform fails to create jobs," *The Brazilian Report* November 6, 2018, brazilian.report/business/2018/11/06/brazil-labor-reform-jobs/.

party's interventionism buttressed profitability. Rising deficits certainly worried the business community, but Dilma's austerity measures satisfied its leaders. Similarly, much was made of the "Bullets, Bible and Beef" (BBB) caucus as a key driving force behind Bolsonaro.[94] Ultraconservative rural interests were said to have sponsored the demagogue, who would eliminate once and for all government favoring the poor. This view, however, neglects the unprecedented expansion and profits enjoyed by big agribusiness under Lula and Dilma. Throughout, major beef and grain producers were pragmatic supporters rather than ideological opponents of PT rule. In contrast, rural interests that lobbied for impeachment and later mobilized for Bolsonaro were marginal in the capitalist class.

This is not to say that the BBB caucus played an insignificant role. Rather, the rising influence of peripheral sections of business reflected the vacuum in a rudderless and shell-shocked bourgeoisie.[95] Overall, the corporate community backed Bolsonaro late and reluctantly. As he rose in polls, the signals he sent assuaged capital. His announcement, for instance, that Paulo Guedes, a hardcore neoliberal, would head economic policy warily persuaded the business community that the loose cannon might be trusted.[96]

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94 For examples, see Pablo Stefanoni, "Bible, Beef and Bullets: What a victory of Jair Messias Bolsonaro would mean for democracy in Brazil and the whole of Latin America," *International Politics and Society* October 26, 2018, ips-journal.eu/regions/latin-america/article/show/bible-beef-and-bullets-3052/; Roxana Pessoa Cavalcanti, "How Brazil's far right became a dominant political force," *The Conversation* January 25, 2017, theconversation.com/how-brazils-far-right-became-a-dominant-political-force-71495.

95 Small and medium-size ranchers had very real material reasons for backing Bolsonaro. These operations had very narrow margins, and Bolsonaro's promises to open up the Amazon and other protected areas to deforestation, plantations, and pastures appeared as a lifeline when the recession threatened to make them insolvent.

96 Bolsanoro's tapping of Guedes was reminiscent of Lula's 2002 choice to name top financier Henrique Meirelles the head of Brazil's Central Bank. Unmatched in pro-market bona fides, this former president of FleetBoston's global banking oper-

But the fact that capital felt compelled to work with an outsider without tested links to its class shows the extent to which its relations with the state were in crisis. Swelling support for Bolsonaro, including large chunks of the working class, widened this unwelcome path for business.

Growing popular sympathies were channeled toward Bolsonaro by the damaging impacts of recession and austerity, outrage at corruption, and — crucially — the anti-poor resentment fueled by PTista welfare policy. Popular frustration and resentment that gathered leading up to Dilma's impeachment exploded during the 2018 campaign. Cynical about the prospects for an economic recovery and well-functioning public institutions, and besieged by insecurity, Brazilians lost all faith in conventional politics.

Whereas in 2010, half the population lacked confidence in Congress, by 2015, more than three-quarters reported having little to no trust in the legislature.[97] Judgment of political parties was even harsher, as already weak partisan identification across the spectrum dropped to new lows. While 28 percent of Brazilians felt affinity with a party in 2010, this bleak figure sank to a troubling 23 percent one year into the crisis. The PT and its former PMDB bedfellows fared the worst: identification with Lula's party slid to 14 percent, while Temer's party slithered at around 3 percent.[98] Overall mistrust in parties reached nearly 90 percent.

Rejection of ruling institutions and parties merged with accelerating working-class anger at Brazil's marginalized poor.

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ations trained at the Harvard Business School's Advanced Management Program. It is no secret that Meirelles was crucial in brokering a lasting pact with domestic and transnational elites. The choice of Meirelles, along with other strategic campaign signals, told international investors "everything we hoped to hear."

97 Latinobarómetro, "Análisis Online," 2010, 2015. Available at www.latinobarometro.org/latOnline.jsp.

98 Only the PBSD recovered slightly, while neither Bolsonaro's 2015 party nor the other fringe outfit on whose ballot he ran in 2018 registered any preferences.

Antagonism against Bolsa underpinned the resentment, as struggling workers linked their disgust at graft in the state's highest echelons to hostility against "handouts" for this "unworthy" constituency of the discredited PT. Broad swaths of working Brazilians held the extreme poor partially responsible for a political system perceived to turn its back on them.

Two factors fanned the flames of resentment during the downturn. First, Bolsa's design promoted social vindictiveness rather than common anti-elite grievances. Because it benefits the poorest, low-to-medium wage earners had no stakes in the program and later turned against it when the downturn eroded their gains. After all, the two middle quintiles, sections of the working class ineligible for CTTs, had lost 3 percent of Brazil's total income by 2015.[99] Second, insecurity fueled by unrelenting crime pushed professionals, middle-income layers, and those with tenuous footholds in former employment to embrace tough-on-crime appeals targeting marginalized favela residents.

One year into the crisis and its attendant austerity, more than three-quarters feared the country had become intolerably unsafe. With nearly 50 percent of Brazilian families reporting being victims of a crime, up from 25 percent five years earlier, it is unsurprising that nearly two-thirds (up from two-fifths) rated public security as bad or terrible. Perceptions of lawlessness were so engrained by 2016 that 86 percent of Brazilians reported frequent apprehensiveness over violent crime.[100]

Resentment over the perceived biases of CTTs and deteriorating public safety thus predisposed swaths of workers toward punitive, anti-poor revanchism. It was not primarily engrained

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99 Morgan, "Extreme and Persistent Inequality," Figure 3.

100 Two-thirds of Latinobarómetro repondents responded that they constantly feared that fate (Latinobarómetro 2010, 2015, 2016).

and boiled-over racism, intraclass hatred, or Bible-thumping that made sections of labor fall prey to Bolsonaro's reactionary appeal; rather, rising insecurity and resentment promoted by the PT's failed neoliberal model rendered workers susceptible to racist revanchism.[101] The very dissolution of working-class capacities and the degradation of the party's organizational links to labor were key in preventing these troubling orientations.

Fortunately, Mexico avoided the tragic unraveling of progressivism experienced in Brazil. As post-authoritarian neoliberalism failed in Mexico, an upsurge in popular support pushed business toward the populist AMLO. Yet here, business renewed its channels for political influence; simultaneously, frustration over rising insecurity and inadequate social policy inclined popular masses toward a pro-poor agenda.

Neoliberal failure in Mexico, while threatening business prerogatives, did not dissolve its mechanisms for influencing the state

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101 Analyses that attributed Bolsonaro's appeal to inherent anti-blackness directed at beneficiaries of the PT's egalitarian social policies get this wrong. See, for instance, Jaime A. Alves and Joao Costa Vargas, "Antiblackness and the Brazilian Elections," *NACLA* November 21, 2018, nacla.org/news/2018/11/21/antiblackness-and-brazilian-elections. The argument claims that Bolsonaro tapped into a deep and bountiful store of racial hatred that simmered during the years of pro-poor and affirmative action measures and finally found an opening to let loose. There is no doubt that retributive appeals were couched in racialized terms and that many law-and-order revanchists displayed racist hostility. But two key facts belie accounts of Bolsonaro's rise predicated on Brazil's "long, enduring, and foundational odium of Black people." First, the "anti-blackness" primacy thesis is undermined by the fact that before the downturn, programs that favored historically marginalized and underrepresented black and mixed Brazilians were very popular. As a 2010 survey found, there was across-the-board approval of affirmative action. More than two-thirds of respondents agreed — the vast majority strongly — with the fairness of public universities reserving seats for Afro-descendants. Even poor whites, on average, unequivocally endorsed these extra advantages (Erica Smith, "Who Supports Affirmative Action in Brazil?" *AmericasBarometer Insights* no. 49, 2010, 5). The only group with a disapproving response were university-educated whites. But, of course, this social stratum was typically anti-PT from the start, and their votes cannot explain Bolsonaro's victory. The other key piece of evidence that anti-blackness was not the basis of Bolsonaro's appeal is the fact that a plurality of Afro-Brazilians cast their vote for him.

and top political managers. Rather, as ruling institutions' legitimacy fell into irreversible crisis and as narco-violence overtook them, the parties managing the neoliberal regime themselves fell apart. Business preserved the ability to influence politicians and policy, and it mounted a coordinated pursuit of alternative state authorities that might guarantee profitability. Following the alternating PAN and PRI failures, dynamic industrial interests, centered in Monterrey, organized the business community for an exploratory turn to López Obrador.

As his campaign picked up steam, northern economic elites expressed increasing tolerance for an AMLO administration.[102] Hysterical condemnations of the "Tabascan Hugo Chávez" by right-wing intellectuals and the business press were not the organic reflection of a consensus position. Corporate elites adopted a form of pragmatism that mirrors AMLO's policy flexibility. Their public anti-AMLO tirades were opening salvos in what will be a prolonged battle for tactical positioning vis-à-vis an unavoidable new government. Eschewing a showdown with the rising populist, business assessed campaign messages to investors that the "incoming administration would respect the autonomy of the central bank and maintain fiscal discipline" and that lucrative investments in energy would be respected.[103]

The new AMLO-business pact was brokered by the elite professionals managing his campaign. Figures like Tatiana Clouthier, Carlos Urzúa, and Alfonso Romo represent apex managerial layers from elite political, intellectual, and economic circles looking for a viable, orderly way out of Mexico's current dead end. Although,

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102 Eduardo Castillo and Peter Orsi, "In Mexico, longtime foes 'AMLO' and elite getting pragmatic," *Associated Press* June 19, 2018, apnews.com/ba97d9a5d-a7b47bf9b3a90602107cb56.

103 Christopher Wilson, "AMLO And The Markets: Who Will Tame Whom?" *Forbes/The Mexico Institute*, July 3, 2018, forbes.com/sites/themexicoinstitute/2018/07/03/amlo-and-the-markets-who-will-tame-whom/#2143ab4564e8.

individually, they advance sectional professional interests and preferences for market-linked growth and inequality reductions, they also embody the links AMLO ably opened to the country's top corporate leaders. Romo, a Monterrey aristocrat and Forbes billionaire financier, exemplified the blossoming, if tense, understanding reached between AMLO and Mexican oligarchs.

A Vicente Fox diehard in 2000 and an ardent opponent of the "populist," Romo came to realize the futility of post-authoritarian neoliberalism and got behind AMLO's "national refoundation" project as early as 2012. During the campaign, much was made of MORENA's alliance with the socially conservative Encuentro Social Party. But the real conservatizing pressure on AMLO's program came from the stealth ties he built with powerful heads of the business community. Their influence was firmly established, as AMLO's top officials all have direct or family ties to large corporations and elite national and multilateral think tanks.

As in Brazil, surging popular support was crucial in edging business toward AMLO. In Mexico, however, working-class enthusiasm for the populist challenge was near complete. The margins of his victory across the country reflect overwhelming popular backing. AMLO won in all but one state, PAN bastion Guanajuato. His crushing majorities were most pronounced in less developed, more agrarian states: in Oaxaca, Chiapas, Guerrero, and Morelos, historic centers of peasant and teacher rebellions, AMLO received three to five times the support of his closest opponent (in his home state of Tabasco, he exceeded his rivals' votes ten times). He also handily took states with large urban centers. Support from informal labor and the industrial workers in Mexico's metropolitan areas — such as Mexico City, with its sprawl into Mexico state (where he won with a three-to-one margin) — and in the northern assembly export zones were key to his landslide. AMLO even won Nuevo León, where Monterrey, the country's leading manufacturing engine, historically backed right-wing neoliberals.

Once more, the particular forms taken by the legitimacy crisis and popular frustration with social provision shaped Mexico's mass electoral insurgency. AMLO's political trajectory was crucial in escaping broad working-class revulsion toward the entire political class. A PRI corporatist in the pre-neoliberal era, he built up his base as a maverick within the PRD. He stayed with the third wheel of post-authoritarian neoliberal governance long enough to establish a mass following, and he left in 2014 before shriveling PRD support could bring him down with the party.

For most popular sectors, he represented the nationalist left currents that originated the party in 1988, yet López Obrador avoided association with the leadership's transactional tactics that took over in the post-authoritarian period. He thus avoided being associated with the system's collapsing legitimacy. Whereas in 2007, one year into the PAN's second term, two-thirds of Mexicans endorsed the government, by 2017, less than one-fifth approved, and nearly four-fifths condemned it. In 2008, just over a third felt Congress was doing a poor or terrible job; by 2015, three years into the PRI's return to power, more than half of all Mexicans impugned parliament. No party was spared: if, in 2007, all three major parties (though losing ground) preserved mass support, by 2017, that support had evaporated, with respondents reporting 13, 10, and 3.5 percent sympathies for the PAN, PRI, and PRD, respectively. With 16 percent undecided and 35 percent considering sitting out, rejection of the whole political spectrum opened a broad path for AMLO.[104]

Unlike in Brazil, popular experience with neoliberal social provision abetted mass embrace of left populism. Although Mexicans became increasingly frustrated with public institutions

104 See Latinobarómetro 2007, 2008, 2015, and 2017.

and services, and while they reported nearly equally high rates of fear for their safety, the working class did not turn against the most marginal sectors of society. Indeed, formal wage earners joined the extreme poor and informal labor in backing AMLO's new program. In Mexico, the shift toward targeted cash transfers had been more restricted and was never elevated to the status of Bolsa. A program like Progresa reached far fewer beneficiaries, and, given its focus on rural areas, never attracted the political debates that welfare policy provoked in Brazil. Moreover, Mexico never suffered the sharp recession and sudden decline of working-class livelihoods that might have triggered a revanchist backlash against CTTs.

Consequently, whereas beginning in 2010 nearly four-fifths of Mexicans consistently reported always or frequently worrying about becoming the victims of criminal violence, and by 2017 around nine in ten felt that local institutions were irreparably corrupt, they were not susceptible to revanchist scapegoating. Because the extreme poor were not retooled into key partisan clienteles against whom threatened workers could direct their resentment, the class as a whole looked to pro-working-class, populist solutions. Despite this progressive orientation, working-class institutions have been so weakened, and the atomized informal sector has become so intractable, that Mexico's impoverished masses are powerless to affect reforms directly; they are relegated to an amorphous following, incapable of resisting business influence over AMLO.

Neoliberal unraveling in Chile led to a popular rebellion.[105]

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105 For early reports on Chile's October–November 2019 protests see Andrew Richner and Abigail Gutmann-Gonzalez, "Chile Awakens," *Jacobin* October 26, 2019; René Rojas, "If We Don't Fuck Shit Up, We Don't Exist to Them," *Jacobin* October 22, 2019; and Noam Titelman, "Fire and Fury in the Chilean 'Oasis'" *NACLA* October 31, 2019. For a preliminary analysis of the rebellion, see Kirsten Sehnbruch and Sofía Donoso Knaudt, "Social Protests in Chile: Inequalities and Other

In contrast to Brazil and Mexico, where atomized mass support together with either reluctant or coordinated business propelled outside populists to power, no viable political alternative has emerged in Chile. Although growing popular discontent has not been directed downward toward the poor, as in Brazil, no party or politician exists to channel escalating anti-elite sentiment. Business, in turn, inextricably interwoven with the two main coalitions, has not been able to rebuild links to fresh political options, owing primarily to their absence. Corporate elites find themselves incapable of halting and redirecting the regime's collapse or of even influencing its outcome. The absence of surging populism and new pro-business projects pushed the working class into uncontainable insurgency in the streets. Perhaps ironically, mass rebellion in Chile followed the incipient and uneven rebirth of labor's capacities.

Chile's business class never recovered from the dissolution of state mechanisms for promoting its interests. Unlike in Mexico, it failed to redraw networks of influence with new political forces. More similar to Brazil, Chilean corporate elites watched awkwardly as the legitimacy of their state sponsors crumbled. Yet in the absence of a rising outsider like Bolsonaro, there are no new partnerships they might tentatively try out. Instead, capital doubled down on their preferred options, shifting pragmatically from the center-left to the center-right.

Earlier attempts at renovating pro-business political forces, from both outside and inside existing coalitions, fizzled. Suave liberal Marco Enríquez-Ominami shined in 2009 elections with one-fifth of the ballot; by 2017, he was a has-been with 5.5 percent (a loss of more than 1 million votes).[106] Aspiring innovators in the

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Inconvenient Truths about Latin America's Poster Child," *Global Labour Journal* 11, no. 1 (2020).

106 Known as MEO, Enríquez-Ominami is the son of legendary MIR founder Miguel Enríquez, assassinated in 1975 by the Pinochet regime. Although MEO

right-leaning Evópoli party (Evolución Política) never distinguished themselves from Piñera's coalition and floundered. Caught in a constricted sphere of maneuver, business prospects shrank further as responses to the legitimacy crisis splintered major coalitions. A would-be Bolsonaro broke off the center-right but only garnered 8 percent in 2017. On the other side, incorporation of the Communist Party fragmented Bachelet's Christian Democratic partners, pushing a significant faction toward the center-right. Her own Socialist Party split throughout, most recently following the mea culpa resignation of a congressman who was a key player in the party's pro-market governance model. Naturally, business ruled out the new left Frente Amplio. Capital, in short, was stranded as the regime derailed.

Chile's impoverished similarly found that the state and parties had abandoned them. The deepening representational crisis peeled away popular support for governing institutions and forces. In 1997, more than half the population trusted Congress, and ten years later, after four Concertación terms, nearly two-fifths still did. By 2017, at the end of the Nueva Mayoría government, only 17 percent still had confidence in the legislature, while more than four-fifths reported little to no trust. Support for center-left and center-right presidencies also disintegrated: three years into his first government, Piñera was approved by around a quarter of Chileans, when Bachelet returned, her approval sank to the same level.[107] At that point, after Bachelet's ambitious reform package,

projects the image of radical, he is a bland, third-way neoliberal progressive. He is attempting a comeback in next year's elections.

107 The polling data in this section is taken from Latinobarómetro. CADEM reports even lower approval ratings for recent center-left and center-right governments. According to its surveys, Bachelet's approval sank to 18 percent by the end of 2016, while her cabinet enjoyed a pathetic 10 percent approval rating. Meanwhile, once the protests began, Piñera, now in his second term, hit rock bottom with a 9 percent approval rating early this year.

only 10 percent of Chileans were satisfied with local services, and 14 percent with public schools. Throughout, support for all parties collapsed. At the end of Bachelet's second term, no major party enjoyed the sympathy of more than 4 percent of Chileans. Both coalitions polled at under 8 percent, while the undecided, those vowing to spoil ballots, and those simply not wanting to vote amounted to nearly two-thirds of the population.[108] Although the Frente Amplio received a large proportion of working-class votes, it arrived too late to capture popular frustrations. When the revolt began, working-class fury overlooked and overwhelmed Chile's parliamentary radicals.

Severed from post-authoritarian neoliberals, without an outside populist to mobilize them, and deprived of links to Congress's new left, Chile's exasperated workers took to mass direct action. While largely spontaneous, their insurgency was modeled on the growing wildcat actions in industry. The rebellion that ripped through the streets beginning on October 17, 2019, burned hundreds of thousands of commercial and public establishments, and culminated in a march of more than a million workers was triggered by a pro-business tax counterreform and, more immediately, by a transit hike. It was led initially by the marginalized masses, whose rage against entrenched inequality and disenfranchisement drove them to riot and loot for days. However, it adopted the same grievances as Chile's new labor insurgents, as well as their disruptive, often illegal tactics. Yet while newly activated industrial protest is backed by well-developed associational capacity and is underwritten by key economic positions with strategic

108 By contrast, after ten years of progressive neoliberalism, the main coalitions and major parties enjoyed respectable levels of support. For instance, 13 percent backed the far-right UDI, while 11 percent went with the Christian Democrats. And 22.5 and 18 percent, respectively, identified with the center-left and center-right coalitions. Only 8 percent was undecided, while 20 percent intended not to vote.

leverage, Chile's mass mobilizations lacked both. Accordingly, although the rebellion could unleash massive disruption on the streets and win significant concessions from the state, including plans for a new social democratic constitution, it remains highly constrained by the working class's prevailing fragmentation and structural enfeeblement.

WHAT'S LEFT?

When authoritarian regimes ended and progressive governments came to power in BCM, hopes for egalitarian democratic reform were well founded. Not only did democratic and left (in the cases of Brazil and Chile) parties govern but, more significantly, the working classes in these countries, after being undeniably weakened by initial liberalization, preserved substantial structural leverage. With the stage set for new rounds of class conflict that could give workers and the poor both political influence and material improvements, little of the promise was realized. On both dimensions — political and social democratization — the results have been disastrous.

The fervent embrace of inherited neoliberal accumulation strategies by post-authoritarian progressives led them to perpetuate the core features of this growth model that exacerbated their fractured political economies and class structures. Transforming the state into an instrument for corporate expansion generated unprecedented levels of capitalist concentration. By contrast, progressive neoliberals chose to promote, whether through active interventions or by neglect, historic levels of working-class fragmentation. Through ongoing privatization and deindustrialization, intralabor polarization via the persistence of massive informality, and savage social welfare policies, progressives in BCM disintegrated workers' and popular sectors far beyond anything previously seen in these societies.

Although the restructuring executed by progressives initially aided BCM business, post-authoritarian neoliberalism eventually failed both popular sectors and elites. Their ruling strategies and policies that had guaranteed thriving profitability turned into a liability, causing business to lose confidence in their champions at the helm of the state. At the same time, after minor improvements, progressive neoliberalism cemented the barbarous material insecurity of workers and the poor. As the state lost its efficacy as a tool for corporate profits, popular frustrations and indignation simmered and sharpened. When breakdowns of progressive ruling strategies pushed the masses into withdrawing their consent and even revolting, the nature and failures of their key features shaped the rebellions that followed.

In Mexico, leading business sectors dropped the dominant post-authoritarian governing options and cohered behind what emerged as a credible outsider and his program of national "regeneration." Workers and impoverished masses applauded AMLO as a legitimate reformer, and they gave him mass support that overran ruling parties. In Brazil, the collapse of the PT's once spectacularly successful ruling strategy, followed by the quick fizzling of its opponents, left business without desirable options. As Bolsonaro rose in the polls and Lula was imprisoned and ruled out, elites reluctantly backed the reactionary demagogue. Crucially, he owed his ascendance to accelerating support among popular sectors. Devastated by a punishing downturn and austerity, and increasingly fearful of worsening crime, broad fractions of formal workers and middle layers, resentful of the cash transfers benefiting millions just as their employment and income dried up, embraced cruel revanchism.

In both countries, working-class disintegration has reached such disastrous proportions that labor has been unable to influence the rebellions and their outcomes in a non-atomized and coherent manner. Mexican workers voted overwhelmingly for AMLO, but they have nowhere near the sufficient organizational capacity to shape his reform agenda and stand up to his new business allies. Brazilian workers, weakened and disorganized by Lulismo, could neither offer a popular alternative nor effectively block and redirect the amorphous mass enthusiasm for Bolsonaro.

The breakdown, rebellion, and outcome in Chile, while more encouraging than in Mexico and Brazil, have also underscored labor's decisive weakness. When center-left ruling strategies collapsed and business was left adrift, Chilean workers and the poor exploded in spontaneous and uncontainable fury. Prior episodes of industrial organizing and insurgency showed a reform path to follow. Yet even as labor has reasserted its disruptive influence rooted in uneven foundations for structural leverage, Chile's rebellion revealed the limited capacity of workers to forge and push through political and social democratization. Still, the example of renewed industrial insurgency in Chile must be studied and replicated wherever and whenever possible throughout the region.

Latin America's ruling classes, whether under modernizing developmentalists, repressive authoritarians, or progressive neoliberals, have demonstrated their inability to sustain substantive democracy and socioeconomic development. A new left, perhaps empowered by its organized roots in emerging strategic industries and with power over progressive rulers, must find just and sustainable ways to govern.


No

ABSTRACT

From #OccupyWallStreet to #BlackLivesMatter to #MeToo, Twitter is now recognized as an important medium of progressive activism. But while hashtags may be the quickest way for anyone to tap into the turbulent and frenetic world of online social justice discourse, their record for building the sort of institutions that can build popular power is an unbroken pattern of defeat.

REVIEW

Sarah J. Jackson, Moya Bailey, and Brooke Foucault Welles
#HashtagActivism: Networks of Race and Gender Justice
(Cambridge: MIT Press, 2020).

The Poisoned Chalice of Hashtag Activism

Amber A'Lee Frost

In the thirteen years since Twitter's inception, users from every political stripe have launched countless campaigns, many of which have subsequently been covered or even adopted by traditional media and become household names. In *#HashtagActivism: Networks of Race and Gender Justice*, authors Sarah J. Jackson, Moya Bailey, and Brooke Foucault Welles propose that Twitter has become an important tool for activists to "advocate, mobilize and communicate." They say the platform itself has become a powerful counterpublic for marginalized groups, who use Twitter's hashtag function to facilitate political coalitions and networks. More specifically, the book investigates one particular corner of Twitter activism, defined by a distinct political culture that is liberal, social-justice oriented, consciousness focused, identitarian, intersectionalist, minoritarian, and moralist.

Even reducing the scope of their study to this particular online culture, it would be impossible for the authors to cover their subject in thorough detail. To their credit, the book is focused and provides an honest and dutiful record of the major campaigns of social justice hashtag activism, outlining a history, a trajectory, and a digital landscape. Curiously, though, the authors' accounts of these campaigns only serve to thoroughly — almost relentlessly — contradict the book's techno-optimist thesis, page after page, from the very beginning.

The authors have utilized an "interdisciplinary mixed methods approach" in their research, even delving into a sort of Twitter ethnography to include statements from the online activists they're studying. They acknowledge the friction that can arise when the anecdotal is situated alongside the empirical — "focusing on importance and influence is, of course, a normative choice" — but conclude that standpoint theory need not preclude quantitative rigor, categorizing their subjects as "collaborators" and "researchers themselves."

Among such collaborators is Genie Lauren, hashtag activist and author of the book's foreword. Lauren delivers a thoughtful, if all too familiar, account of millennial malaise. After graduating from college just after the 2008 financial crisis, she was working two jobs to pay off her student loans, one in retail and another at a twenty-four-hour call center, where she had plenty of time to blog and tweet on the clock. Initially, Twitter provided her with the company of her fellow "under- or unemployed insomniacs," but her engagement online turned political around the 2009 Iranian election, or, rather the #IranElection. Like many politically minded people her age, Lauren marveled at the speed at which information traveled on Twitter, and she was excited to receive real-time dispatches from Iranians on the ground. The platform felt even more legitimate to her when CNN began using tweets as sources, a move that seemed to credential social media as an authentic revolutionary pulpit. This did not prevent the Iranian government from blocking Twitter for a month during the election.

Nonetheless, a number of hashtag campaigns followed, and Genie Lauren dove in. First, there was #TroyDavis, the online wing of a movement to stop the execution of a man convicted of murdering a police officer in Georgia, and a hashtag that seemed to saturate every corner of Twitter for some time. Davis was executed regardless, and Lauren describes the confusion and devastation that followed when the collective passion and will of so many people failed to manifest in the real world — but the real world moved on, and so did Twitter.

Less than six months later, there was #JusticeForTrayvon, where so many like Lauren demanded the arrest and prosecution of George Zimmerman. Here, she echoes Karl Marx on philosophers' tendency to merely interpret the world, saying, "It felt as though if we could thoroughly understand the problem, we could fix it." Amid massive public outcry, Zimmerman was arrested, tried, and acquitted.

The online activist community was stumped yet again. First, they had failed to save a life. Then they failed to punish a man who took a life. So what *could* be accomplished with this platform? Another online activist reminded Lauren of a different Twitter campaign: when the TV cooking show host Paula Deen was being sued for racial and sexual discrimination in the workplace, she maintained her innocence but admitted in a deposition to having used the "n-word" at least once in the 1980s outside the workplace, before retiring the slur from her vocabulary. Twitter swung into full force to demand her firing. Her Food Network cooking show was canceled, and she lost a number of lucrative endorsements (although her cookbooks shot to the top of the Amazon best-seller lists).

Of the six anonymous jurors appointed to the Zimmerman trial, Juror B37 refused to convict. When Twitter discovered she had acquired a literary agent, rumors flew that she had been seeking an agent since the beginning of the trial (unsubstantiated) and that she already had a book deal (inaccurate). After much Twitter-led public pressure, the agent (who also represented O. J. Simpson for the second release of *If I Did It*) dropped Juror B37 as a client. Victory at last.

Lauren's story is, quite frankly, one of the more substantial "wins" in the book, which largely measures the influence of Twitter activism according to the metrics of Twitter itself: the saturation and permeation of slogans, platitudes, and their attendant discourse online. In the larger world, it is difficult to spot a victory or any lasting legacy of power among even hugely popular campaigns like #OccupyWallStreet, #ArabSpring, #BlackLivesMatter, #YesAllWomen and #MeToo. Occupy Wall Street fizzled, the Arab Spring flopped, George Zimmerman walks free, and police murders of black people have not decreased. While it's true that a few of the high-profile voices of #MeToo managed to punish and even lock up a few of their higher-profile predators (and publicly censure a few more harmless perverts), no meaningful legislation has been passed to protect or empower ordinary women in the workplace. The campaigns featured in *#HashtagActivism* have given us little more than the prosecution of Harvey Weinstein, the cancellation of a TV cooking show, and the forestalling of a few tawdry book deals.

WHO RUNS TWITTER TOWN?

In the introduction to *#HashtagActivism*, the authors are quick to reference academic and "techno-sociologist" Zeynep Tufekci, who observes that Twitter activism "looks very different from traditional, institutional-based politics — a kind of democratic participation that is inclined toward a horizontal, identity-based movement-building that arrives out of grievances and claims." Like the authors, I would agree with Tufekci's characterization.

It comes as no surprise, however, that they don't engage further with Tufekci's work, or even mention the title of her 2017 book, *Twitter and Tear Gas: The Power and Fragility of Networked Protest*. As one of the first academics writing on technology and movement-building, Tufekci has been openly and consistently skeptical of social media's "transformative" potential since at least 2014. Unlike Jackson, Bailey, and Foucault Welles, she engages with the history of progressive online activism as a series of failures that she subjects to critical analysis and comparative-historical investigation.

Tufekci does not regard social media as a poison tree capable of bearing only poison fruit, per se, but she is not naive about the digital means of production. In talks and in print, she has illustrated that governments and capital have far more power than the masses over social media, which they often use to spy, censor, and misinform with impunity. (If you'll remember, when the Iranian government found Twitter too troublesome, they simply turned it off.) She insists that a digital economy of private companies running on ad revenue — much of which, she notes, is used to target voters through data collection — does not and cannot function as a tool of the people.[1] While she does not argue that data collection can necessarily alter electoral outcomes (indeed, Hillary Clinton's "data-driven" 2016 presidential campaign didn't get much out of their "Ada" algorithm), she's clear that the internet is firmly in the clutches of elites.

The free and easy voluntarism of posting and content creation obscures an essential fact: the internet is deceptively vulnerable to corporate manipulation — in many ways, far more so than print, radio, or television. Consider TV: the owners create content, the audience consumes it and judges its value, and the government regulates programming, sometimes ever so slightly, even if only

1 "Politics by Numbers," *Economist*, March 23, 2016, economist.com/special-report/2016/03/23/politics-by-numbers.

under massive public pressure. With the internet, the audience is invited to create their own content (generally for free), and the owners are largely rentiers or digital landlords that remain totally unaccountable for anything that happens on their preserve. Meanwhile, in the United States, the government and its attendant regulatory bodies are either in bed with big tech or can't even remember their email passwords.

It is difficult to determine whether the Federal Communications Commission (FCC) is uninterested in or merely incapable of regulating the internet, and while advocates of free speech or even basic democracy should regard any attempt to do so with a healthy skepticism, it is significant that you can't sue a tech company for abuse, harassment, stalking, libel, slander, or defamation that occurs on their platform. What little regulation is adopted is largely designed by the tech companies themselves, and it's easily sidestepped when convenient. In the United States, the internet operates unlike any other form of media in that it is not subject to the rules that are, at least theoretically, imposed by representatives of the people. With all this in mind, it is difficult to imagine online activity as a revolutionary home base. The omnipotent rulers of these companies yield no transparency, accountability, or democratic control to users, the majority of whom do not display the dedicated platform loyalty of the activists in *#HashtagActivism*.

TWITTER IS ON ITS WAY OUT

Even if the public gained some sort of democratic control over Twitter, we would be extremely late to the party. Internet users tend to cycle through social media platforms as they emerge, particularly as new platforms target youth markets with the promise of a parent-free online experience. At this point, Twitter is distinctly millennial, with younger users initially defecting to Instagram, then Snapchat, and now TikTok.[2] Social media platforms also produce their own self-selecting demographics, which are never a particularly representative cross-section of anything.[3] Since online activism is entirely voluntarist, and therefore siloed ("networks" work for the Right as well), mediums for communication will always be a moving target. Facebook, Twitter, Instagram, Snapchat, TikTok — as our options expand, the crowds disperse.

Twitter users are not only more insular and itinerant than the authors seem to imagine, there are actually very few of them, relatively speaking. A 2019 Pew Research Center study found that only about 22 percent of American adults use Twitter, and they tend to be younger and more progressive than the average American. Moreover, about 80 percent of tweets are produced by 20 percent of accounts, meaning the majority of activity on Twitter comes from a very small (and ever shrinking) number of highly active users. In February 2019, Twitter publicly announced their active user numbers for the first time;[4] previously, the company only publicized their user "growth," a percentage that was said to be padded with bots and dead accounts. After their grand reveal indicated a much smaller and still shrinking user base, they decided to no longer inform the public about their platform's numbers.

Even without an accurate inventory of users, the material account of hashtag activism's record to date exposes it as a midwife to impotent movements that grow and die far too quickly on undemocratic platforms that are corporate-controlled and fleetingly faddish. But what if we could fix all of that? What if we had

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2 https://www.pewresearch.org/internet/2018/03/01/social-media-use-in-2018/

3 https://www.pewresearch.org/internet/2019/04/24/sizing-up-twitter-users/

4 Hamza Shaban, "Twitter Reveals Its Daily Active User Numbers for the First Time," *Washington Post*, February 7, 2019, washingtonpost.com/technology/2019/02/07/twitter-reveals-its-daily-active-user-numbers-first-time/

a social media platform of our very own, one that corrected the aforementioned flaws? Could there be a platform of the people, a publicly controlled fixture that would attract a critical mass of users, with an architecture that patiently fosters the specialization of talents and skills that would herd all the cats of social justice, laying the groundwork for a deft, unified, and democratic organization? Assuming for a moment that such a thing is possible, would it even be desirable?

CAN SOCIAL MEDIA BE SOCIAL?

Once again in clear opposition to the conclusions of *#HashtagActivism*, Tufekci argues that the rapidity of the growth and spread of online-borne movements may be a potentially intractable obstacle, rather than an advantage, as the speed of horizontalism only seems to foster a specific kind of social formation: the undifferentiated mass. She observes the “tactical freeze” these sprawling movements are inevitably saddled with, as they expand into erratic, unwieldy, unstable blobs, incapable of specialization or coordination. Eventually, they become movements that are unable to move, so they stall out, then dissolve. Tufekci contrasts this life cycle with the slow, heavily coordinated, and decidedly very *un*spontaneous activism of the civil rights movement, concluding that the March on Washington succeeded as a result of these traditional organizing strategies, while Occupy Wall Street (along with so many other gods that failed) always crumble for lack of them.

Herein lies the fundamental misunderstanding of movement-building in *#HashtagActivism*. It’s true that political sentiments irradiated by the internet *do* experience remarkably rapid growth — but so does a tumor. The impressive speed and size of online movements are too often mistaken for viability and maturity, when, in fact, the accelerated development of online activism belies a deadly progeria: it burns hotly, brightly, and briefly, often with nothing to show in the end but a glut of forgettable, disposable content and the emotional exhaustion of participants (and perhaps a monograph or two).

The intellectual detritus of such dreams deferred litter the culture only briefly before the streets are swept clean for the next parade. For the life of me, I cannot remember a single insight from any book written about Occupy Wall Street during its brief window of apparent promise, though I do remember that the website occupywallstreet.org (taken down only a few weeks after this review was written) now advertises one — *The End of Protest: A New Playbook for Revolution*, from the "co-creator of Occupy Wall Street." As of one of the more high-profile, media-savvy activists to make a name for himself in Zuccotti Park, the author, Micah White, also plugs his business ventures, including "Boutique Activist Consultancy," which bills itself as "an activist think tank specializing in impossible campaigns." In 2019, White was named "Activist-in-Residence" at UCLA's Institute on Inequality and Democracy, but if you missed that and were unable to attend any of his speaking engagements at Harvard or Yale, you can still enroll in his Activist Graduate School, an online streaming service of "exclusive content" where students receive no grades or credentials but can "learn from leading social movement creators." It's $19.99 a month, but you can sign up for a free two-week trial, which might be worth it just for the class taught by Rachel Dolezal.

White's trajectory since Occupy Wall Street may seem like an extreme example, but it's not an anomaly in online activism — it is a cliché. Anti-racism consultant and *White Fragility* author Robin DiAngelo has become even more successful since the second waves of Black Lives Matter renewed interest in her 2018 book. A little fresh buzz online, and it went viral — launching what is essentially a brochure for her workplace anti-racism-training business into an Amazon and *New York Times* best seller. Of course, many, if not most, such enterprises fail. Millennial activists Leslie Mac and Marissa Johnson (previously best known for storming the stage during a Bernie Sanders rally to demand a conversation about Black Lives Matter), became public laughingstocks when they launched their “Safety Pin Box” start-up, a confusing sort of pen pal program where subscribers pay to get anti-racist mindfulness tips in the mail. This hyper-entrepreneurialism is not only a feature, rather than a bug, of social media activism, it is the native fauna of liberalism online; online is where it thrives, and with far more resilience than any movement attempting to build a social base with hashtags.

THE SOCIAL POVERTY OF SOCIAL MEDIA

Social media is a marketplace, not a social good. In fact, it’s not even social.

Early in the introduction to *#HashtagActivism*, Genie Lauren describes herself curiously: “I have always been the sort of person who is sensitive to the plight of other people.” This begs the question: Does Lauren presume that sympathy is a rare trait in a person? Perhaps there is something inherently unsympathetic about the internet that has lead her to believe so.

Bluntly, much of political social media is a nasty, vicious place, and while there are the rare pugilistic posters who manage to navigate it without professional repercussions or trauma (my cold-blooded self among them), it doesn’t change the fact that social media is covertly manipulated by unseen architects and money men, and overpopulated with miserable people emboldened by anonymity. The result is a virtual space that’s simultaneously crowded and isolated, an atomized mob of screaming filter bubbles, all attempting to exercise what little power they have, which generally amounts to character assassination, public shaming, or getting someone fired.

I don't mean to imply that antisocial behavior is a ghost in the machine of the internet. Rather, such behavior is the result of suffering and decline, and social media serves as a convenient repository, and often a Petri dish.

To their credit, the authors of *#HashtagActivism* are aware of some of the cruelty that flourishes on Twitter, but they generally frame the issue as a war between progressives and unmoderated right-wingers, rather than a conflict of interest between posters and tech companies.

While few would deny the vicious toxicity of social media, many in the book argue that its social benefits outweigh its determinants. This sets a very low bar for what constitutes a net positive. Of course Twitter is a place to make friends, but so is a foxhole — and of course it can be a soothing comfort to the masses, but so are opioids. I made this comparison last year in an article for *Jacobin*[5] arguing that universal basic income would exacerbate political disenfranchisement:

The introduction of the internet as the main substitute for "community" for the young un/underemployed is not merely a matter of trading rug hooking for video games; this is a technology so powerful that its architects do not allow their children to use it. Online has become an opiate of the lumpen. Similar to weed or alcohol, it is a harmless social pastime for the thriving and robust. For the miserable and economically insecure, however, the internet becomes a pathological social blight, a symptom of initial misery that swells to compound and exacerbate the cycle of antisocial disaffection . . . We are more connected than we have ever been, and we are more isolated than we have ever been.

Social media is a social blight, but only because it is the

5 Amber A'Lee Frost, "Andrew Yang and the Failson Mystique," *Jacobin*, September 18, 2019, jacobinmag.com/2019/09/andrew-yang-universal-basic-income-ubi-betty-friedan-feminine-mystique.

landscape of a blighted people. Yes, Twitter has algorithmically automated a particular type of social coordination for optimum efficiency, but it's one that consistently ghettoizes social practices like political activism into insular, antisocial countercultures. So, unlike Tukfekci, I presently have little interest in reforms to fix or "democratize" the internet; it would be putting the cart before the horse. With working-class politics on the back foot, any attempt would be akin to tackling the opioid crisis by tinkering with drug policy. If there is anything to gain from social media at this moment, it is the potential to recruit people into corporeal politics, relegating the platforms to a mere methadone of the masses.

COUNTERCULTURE PUBLICS

Assuming the authors have read the book, they would no doubt find *Twitter and Tear Gas*'s thesis on the fragility of social media networks highly inconvenient to their triumphalist victory lap. Like Tufekci, though, they draw inspiration from pre-digital movements, comparing Twitter to the journalism of Ida B. Wells, ACT UP, riot grrrl, and "Negro spirituals," all of which they describe, along with Twitter, as "counterpublics," a concept coined in 1990 by Nancy Fraser in "Rethinking the Public Sphere: A Contribution to the Critique of Actually Existing Democracy."

In the article, Fraser argues that Habermas' "bourgeois public sphere," which he defines as "the sphere of private people come together as a public," does not account for the discrimination in the coffee houses and salons that Habermas deems public. Fraser concludes that marginalized groups respond to their exclusion by forming their own "subaltern counter publics." It's a somewhat fuzzy (or, if you prefer, "discursive") concept, but rather than defining counterpublics within any set of parameters, the book continually provides examples, such as those listed above, referring to a sprawl of organizations, media, movements, and genres originating from the social formation of a marginalized identity group historically excluded from larger, "elite" public platforms.

It's unclear to me the degree to which hashtags or any other social media could be accurately termed a "counterpublic."

In one sense, Twitter is highly public: it provides no exclusive, protected, or "safe" space for any marginal group, because it's free and available to all as a medium for both content creation and consumption. It lacks the formal and informal cohesion of any one political identity.

In another sense, Twitter is simultaneously and literally totally private: rather than a public square, it is the platform of a private company with the power to evict, censor, and obscure users on a whim. If anything, Twitter could be defined as the neoliberal *opposite* of a counterpublic by nearly every metric. It does not function independently of traditional or elite "spaces." It's been years since tweets were first absorbed and utilized by traditional media; they now regularly make the news, and nearly every journalist is expected (if not required) to have an active profile. Perhaps most significant, Twitter concedes no real control of the platform to its users. Of course, it's not always obvious who controls the internet — and that is by design.

It is also worth noting that author-favorite Ida B. Wells did *not*, in fact, operate entirely in the realm of "counterpublics," and when she did, and pursued a very populist strategy of leveraging broad support from the general public. She wrote and co-owned *Free Speech and Headlight*, a radical but hardly niche black newspaper. She also wrote for conservative popular broadsheet publications like the *Washington Star*. She produced rigorous and empirical pamphlets on lynchings and went on public speaking tours. Moreover, she invested herself heavily in formally organized institutions, from church groups to women's temperance associations. Wells was a founding member of the NAACP, an organization intended to (and that would later prove to) exercise power and a political agenda far beyond the reach of any counterpublic.

THE DEFINITION OF INSANITY

When Hunter S. Thompson eulogized the expired New Left and its attendant counterculture in his largely autobiographical novel *Fear and Loathing in Las Vegas*, he was mystified at the naive triumphalism with which he and his fellows had regarded their moment in history. His remorse was tempered by bewilderment at their certainty, that they once shared a "sense of inevitable victory over the forces of Old and Evil" and an unquestioning confidence that "our energy would simply prevail."

It's a startling change of tone. In a book largely remembered as surreal, menacing, and hedonistic — a psychedelic drug buddy road trip comedy at its lightest — here is a quiet, wistful moment of regret and bafflement. How could they have been so sure they were going to win?

And so from tragedy to farce, the curiosity of *#HashtagActivism* could be summed up in one question: Why do Jackson, Bailey, and Foucault Welles insist upon the political victories of social media activism, a strategy that boasts a consistent record of political failure?

The simplest answer is that the authors and I have entirely different definitions of both victory and failure, stemming from incompatible worldviews that long predate the internet. For socialists, the working class is the central subject for the politics of justice and liberation, not because the exploitation of the working class is always the most tragic plight, but because of the contradiction inherent in that exploitation: the world is powered by work, so workers are capable of wielding the power of the world.

For liberals, however, *no* subject can ever be *central,* as their world-view is inherently *de*centralized in order to advocate for the "suffering." This requires the fabrication of a sprawling, incoherent assemblage of identities deemed "marginal," or "oppressed," who are then idealized for the suffering implied in the history of those identities. For the liberal, suffering is the credential that demands rigorous study, bestowing marginal identities with a transhistorical political significance that can only resolve in fetish. Not unlike the American Protestant concept of Christian mercy, with its noblesse oblige toward the "meek" and "wretched," marginalism relies on a moralist, rather than political approach to injustice.

While it's true that "marginal" may incidentally refer to working-class people — as, indeed, most people work for a living — it so easily and often refers to a small number of self-appointed "community representatives" who often display a vigilant dedication to their own professional-managerial class (PMC). These "marginal people" can be your colleagues in media, academia, or even entertainment ("networks of race and gender justice," indeed).

As it functions now, a hashtag campaign is largely an exercise in liberal networking. It offers in-group recognition, the illusion of power, the potential for moral absolution, and sometimes, conveniently enough, professional advantages for the enterprising white-collar progressive. For the more earnest social justice advocate — who probably works at a "job" rather than a "career" — Twitter allows them to participate in "the conversation," where they can bear witness to suffering among like-minded people, even if it results in little more than a collective, therapeutic wailing into the privately owned digital void. If the authors' political goals are largely PR campaigns, therapy, and consciousness raising for a more merciful middle class, it's fair to say that Twitter has been wildly successful.

Only a few paragraphs of *#HashtagActivism* refer to the potentially nefarious machinations of Twitter — and they are all buried in the book's afterword. In a publication about politics on social media, fewer than six pages are dedicated solely to the politics *of* social media. Net neutrality, surveillance, censorship, trolls, misinformation campaigns, and bots all appear to be minor concerns in the otherwise auspicious estimation of Twitter as a powerful and positive force. The authors do, however, appear to be concerned about Russiagate.

This paranoid insularity and PMC subculturalism can only exacerbate atomization and political obscurantism, even more than the New Left ever could. Yet there is a resistance to any consideration of its weaknesses, and a failure to even to address its potential detriments. Much of this stems from a fetish for novelty that has flourished since the cultural turn pronounced the death of dusty old class politics. Social media's newness is taken as evidence of its potential, even when its own partisans write a book explicitly chronicling its 100 percent failure rate. At the heart of this denial is an ideology of will; this has to work, because it's all that we have left — all the while, its greatest advocates sing its praises amid an unbroken record of defeat.

LEARNING WHAT WINNING IS

The United States is currently witnessing a revival of the Black Lives Matter (BLM) movement, seven years after the hashtag first went viral in response to the murder of Trayvon Martin, reignited after the video of George Floyd's murder horrified the country. The diffuse, organic, and unstructured trajectory of the first BLM movement[6] didn't cohere on a national level, nor did the organically developed autonomy of the movement remain in stasis. Various chapters and groups merged, split, or incorporated into NGOs. As with Occupy Wall Street, no "official" demands were ever presented, as no "official" organization actually existed to present them — thus, there was no means or procedure by which

6 Darren Sands, "What Happened to Black Lives Matter?", *Buzzfeed*, June 21, 2017, buzzfeednews.com/article/darrensands/what-happened-to-black-lives-matter.

to establish anything like a nationally recognized policy agenda. On a local level, a few activist groups managed to advance some police reforms. Many online activists were celebratory, or at least optimistic. Some nearly echoed Louis Brandeis's line about states being the laboratories of democracy, arguing that local reforms could set precedents that would spread across the country. The more highly publicized police reforms, such as the implementation of body cameras and implicit bias training, might have looked familiar to the middle-class liberals who celebrated such recognizable office culture being introduced into yet another workforce. Unfortunately, nothing made a dent in police brutality statistics. Declaring neither victory nor defeat, hashtag activism more or less moved on to the next trend, as it is wont to do. It is difficult to diagnose the caprice of Twitter discourse. It's true that social media disrupts your attention span, but perhaps many of the erstwhile militant BLM tweeters just assumed their mission was accomplished and that, like most things, this would be solved with surveillance and a mandatory HR meeting on anti-racism.

As with Occupy Wall Street, or even the now 501(c)(3) endowed Women's March, the suggestion that the initial Black Lives Matter movement wasn't effective is often interpreted as a lack of support for its energy and goals, but the reality is that the success (or lack thereof) of Black Lives Matter is merely the most quantifiable of all the hashtag campaigns. In 2015, the *Washington Post* actually created a "Fatal Force" database[7], making it incredibly easy to observe that there's been no notable reduction in the number of black people killed by police since 2015. At this point, even early organizers of the initial BLM moment are insisting that different organizing strategies will make for a stronger movement the second time around. They also note that public opinion has shifted

7 washingtonpost.com/graphics/investigations/police-shootings-database/

more favorably toward Black Lives Matter, but there is a risk that accompanies the confidence bestowed by broad public support as well; as with Thompson, activists can succumb to the delusion that the sheer force of collective will can change the world.

Despite the fact that the Left has lost every major battle since the civil rights movement, the internal culture of American leftists remains curiously plagued by a delirious revolutionary triumphalism, accompanied by sunny denial. A sort of inverse of end-of-history fatalism, there is little consideration for the realistic limits of power and influence for American left-wingers in 2020. Compulsive magical thinking obscures any honest inventory of resources, strategies, timetables, mistakes, and failures — all the accounting necessary for a serious-minded political strategy. This is not an impossible obstacle, but organizers can no longer take for granted that activists have a definition of winning and losing that is recognizable to anyone outside of a left subculture, or even consistent within it.

The pages of *#HashtagActivism* are littered with celebratory plaudits for ineffectual online spectacles specifically *because* the authors are evading their own responsibility to establish the metrics for what constitutes a win or a loss. This is very convenient to them, for when the revolution never happens, they are able to rationalize their aimlessness by insisting that maybe the *real* revolution was the friends we made along the way. Of course, setting the standards for a win, a loss, or a draw is not the duty of a spontaneous, horizontalist protest collective, nor can it be offloaded onto some intellectual. It requires the sort of deft, coordinated mobility that only a formal organization can provide.

NO SCHOOL LIKE THE OLD SCHOOL

In the absence of working-class institutions that could build and exercise political power, capital benefits from Twitter's ability to distract, isolate, and anesthetize users, precluding an environment of solidarity and instead perpetuating an impotent discourse that is fundamentally corrosive to the political and social formations necessary for productive movement-building.

Any information or activity more complicated and less disposable than a hashtag will eventually require stable institutions that can grow, build, and recruit in real space and real time. These institutions do not resemble the tyrannically structureless and voluntarist cattle calls of whatever fleeting online mob has made the rounds this week. Any use of the internet for movement-building should be considered with the ultimate goal of social media's obsolescence, and its supplantation by unions, parties, and political organizations.

Activism must return to the traditional strategies of organizing and institution-building that have demonstrated a true record of success. This work will not move quickly, and most of it won't be cinematic or produce a flurry of media attention, online or off. Most important, it cannot rely on the very platforms over which we have the least amount of control. Some seem to think that social media will act as the proverbial capitalist that sells us its own hanging rope — and this does have some small truth in it, to the degree it can be used as a bulletin board for promoting real-life events, but such organizing is the most flimsy and minor outreach. A desperate activist tweets. An aspiring activist uses Facebook. A fledgling organizer emails. An established organizer has phone numbers. A successful organizer is offered addresses.

It's appropriate that *#HashtagActivism* is dedicated to "those who insist on being heard." Social media may provide an immediate connection to a mass of sound and fury signifying nothing, but you *do* have a voice, however impotent, and you *can* insist on being heard. For those of us insisting on power, however, it offers less than nothing.

Catalyst is an interdisciplinary journal. We welcome scholarly articles from all fields and any specialization.

STYLE

Articles submitted to *Catalyst* should be written in simple and clear language, avoiding unnecessary jargon. Although technical language is sometimes necessary, it should be kept to a minimum, as should footnotes and tables.

LENGTH

We do not have a standard word limit, but we encourage contributors to not exceed 10,000 words.

CITATIONS

Sources should be cited in footnotes according to the Chicago Manual of Style. Authors do not need to provide a bibliography.

DRAFTS

Please email drafts to submissions@catalyst-journal.com. We will try to respond as quickly as possible, but may require a month for review.

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