ECONOMIC FREEDOM FOR THE FREE: HOW NEOLIBERALISM IS LEADING TO GREATER INCOME INEQUALITY WITHIN COUNTRIES

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ABSTRACT

Many observers have noticed a sharp divergence of household incomes in the last few decades that seems unrelated to the traditional explanations of inequality like economic development. My dissertation examines the question of how the rise of neoliberalism—or the market *über alles*—impacts this inequality in countries around the world. High inequality is known to hinder economic growth, social mobility, democratic functioning, social capital, and to adversely affect health and education outcomes, as well as to exacerbate racial and residential inequality. Equality, meanwhile, is seen as desirable in its own right as a matter of social justice.

Neoliberalism is a likely suspect because it emerged at the same time and in the same places that inequality began to rise after three postwar decades of decline. It is also a particularly competitive form of capitalism, and thus produces more winners and losers at both ends of the income distribution. With its focus on profits, it is much more beneficial to income derived from capital gains at the expense of wages, deepening the typical class divide under capitalism. Lastly, neoliberalism is an elite consensus formed without any public participation, and these special interests shape the economy and society to the benefit of this privileged minority.

I find four major shortcomings of existing research related to my research question. First, all but the most recent research has had to rely on sub-standard data for cross-national comparisons, which I address using Frederick Solt's (2009) Standardized World Income Inequality Database (SWIID). Second, past analyses of cross-national data have improperly handled between-country variation, which I address using a dual fixed-

effects modelling approach. Third, there are operationalization problems with neoliberalism, in which past research has failed to capture the phenomenon in its entirety. I address this by developing a new multi-dimensional measurement approach.

Moreover, there is a determined failure by many to fully consider neoliberalism as a likely explanation because it contradicts the myth of liberal democracy and capitalist benevolence. Along these lines, the fourth shortcoming is that most popular explanations of rising inequality blame otherwise benign trends such as globalization and technological advancement. This obscures the political nature of neoliberalism, especially how the rich are able to dominate political economy at the expense of the masses. In doing so, it makes it appear that inequality is just a byproduct of progress, that we must accept it as inevitable, and that only palliatives are available. The reality, however, is that neoliberalism is neither inevitable nor progressive and requires systemic change to rectify.

I address the research question with three research components. First, I develop a definition of neoliberalism in contrast to existing theoretical narratives, namely globalization, neo-Keynesianism, dependency theory, and economic freedom. I argue neoliberalism is a social and political project that emerged in the economic stagnation of the 1970s—a way for corporate elites to revitalize profits by whatever means necessary, regardless of the consequences. These means have included tax cuts, social spending cuts, deregulation, neoliberal monetary policy, corporate and industrial restructuring, free trade agreements and increased foreign investment, export-led growth, and the growing power of global economic institutions.

I operationalize this definition using the Economic Freedom for the World Index (42 variables) and other World Bank data. Empirically, I show that many neoliberal variables correlate and thus may embody a wider phenomenon, but they also show moderate independence which supports the multi-dimensional approach rather than a single neoliberal metric.

In the second part of the dissertation, I use the measurement developed in part one to analyze neoliberalism's relationship with inequality. I find a relatively robust relationship in the expected direction, with some exceptions, and the dual-model approach underscores the importance of analyzing both between- and within-country variation. The latter is useful because it inherently controls for cross-country heterogeneity, but it comes at a substantial loss of variability. The former has regrettably been derogated, but it provides much explanatory power and complements within-country analysis well. In other words, between-country variation captures deep institutional and cultural differences between countries, while the other variation captures more superficial but easier-to-change policy shifts and trends within countries at various points in time.

I also explore the nonlinear effects of neoliberalism on inequality. Generally, the analysis showed that more developed countries had a stronger association between various neoliberal dimensions and greater inequality. I speculated this was because more developed countries historically have more institutional protection from the adverse effects of markets, and by weakening these, neoliberalism generates more inequality than in countries whose public intervention is already less effective and robust, especially in unmeasurable ways. The analysis also generally showed that at low levels of neoliberalism the relationship sometimes reversed, creating a U-shaped curve that was typically centered somewhat left of the mean. I speculated this was due to the fact that very low scores of neoliberalism occur in underdeveloped countries usually suffering from serious state corruption, which translates into greater inequality. In such cases, moving away from a corrupt state and toward market institutions generates relatively less inequality.

In the third part, I expand on the above model to establish competitive testing of alternative explanations of rising inequality using contingency effects. The alternatives include globalization, technological advancement, industrial restructuring, human capital/skills, and female employment. The test asks whether the effects of these alternatives are actually contingent on above average levels of neoliberalism, and thus not responsible for inequality *per se*. Instead neoliberalism makes globalization, technology, and the others more inegalitarian than they would have otherwise been.

In general, the analysis showed that the alternatives are robustly contingent in the expected direction. Greater levels of neoliberalism drive many ordinarily benign trends and processes toward greater inequality. Remarkably, even basic education, long thought to be the great equalizer, can actually exacerbate inequality at high levels of neoliberalism. In fact, at average levels of neoliberalism, the alternatives mostly had weak relationships to inequality. And below the average, many alternatives actually appeared to generate less inequality—that is, inequality was lower where and when neoliberalism was less embedded.

Overall, the findings demonstrate that neoliberalism is an important if not predominant explanation for rising income inequality that many countries have experienced in the last several decades. It suggests that superficial solutions like more education spending or job creation may be insufficient without addressing, at least to some extent, the deeper issue of neoliberal capitalism. I provide suggestions for this, but ultimately it means shifting our major institutions away from market logic toward public interests, control, and orientation. A future economic crisis more severe than the Great Recession could advance such systemic change, but popular protest will likely also be needed to ensure that addressing today's challenges becomes more egalitarian.

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CHAPTER 1

INTRODUCTION

> All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind.
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> —Adam Smith, *Wealth of Nations*, 1776, p. 448

In the 75th Anniversary Issue of the journal Foreign Affairs, economist Paul Krugman writes about “Cycles of Conventional Wisdom on Economic Development.” He observes “how the prevailing orthodoxy … has moved in this century from anti-protectionist, 'sound money' tenets to enthusiasm for intervention, planning and import substitution and back to support for foreign trade and the free market” (1995:717).

What disturbs Krugman most about these shifting orthodoxies is not their pace but how little they seem to depend on sound, scientific inquiry. Indeed, when he had previously written how several East Asian economies had achieved rapid, sustained economic growth by radically violating orthodox principle, the argument drew a curious response from reviewers. “These critics disagreed with the conclusions, not because they questioned the evidence, but because they found them more or less literally unthinkable” (1995:717). In trying to explain these cycles, Krugman is dismissive “that bad ideas flourish because they are in the interest of powerful groups,” but the historical correlation is inescapable.

More recently, the European Central Bank President Mario Draghi issued a warning to “beleaguered euro-zone countries that there is no escape from tough austerity measures and that the Continent's traditional social contract is obsolete” (Blackstone et al. 2012). Austerity is defined as “enforced or extreme economy,” according to Merriam-

Webster, which listed the word as its most looked up entry on its website for 2010 (“socialism” was fourth). Austerity typically involves lowering government expenditures on public services for the purpose of deficit-cutting in times of a struggling economy and subsequent fiscal crisis.

While austerity is still being pressed upon countries like Greece, Western Europe and Japan have tried several other strategies since Draghi’s remarks, desperate to revitalize economic growth since the Great Recession. As of now, they seem to be following the U.S. Fed’s example of heavy-handed quantitative easing, basically supplying abundant easy credit to big banks. Even China, in the face of declining growth that at first had been unhindered by global recession, is now considering “supply-side structural reform” and praising Ronald Reagan and Margaret Thatcher (Buckley 2016).

Financial crises might normally be an opportunity to question how past policies have led us astray, but instead the prescriptions of many governments today follow the logic that the policies of the last few decades have not gone deep enough in curtailing big government in favor of the free market. The logic of these policies emerged in the 1970s, and is variously referred to as neoliberalism or market fundamentalism (mostly among critics and detractors), the Washington Consensus (which gives some insight into American hegemony), market or economic liberalism (among its proponents), or neoclassical economics (among economists).

Neoliberalism emphasizes a greater role for the market over the state in economic planning. This typically included such policy transformations as privatization, open trade, deregulation of business and finance, lower taxation especially of corporations and the wealthy, and free-floating exchange rates, among many other free market-oriented policies. The development of neoliberalism occurred alongside several other seemingly inevitable transformations, which have disguised its true impact. Most notably, this includes economic globalization and technological advancement.

Hardly unrelated, many observers have grown concerned over the rising inequality of the last several decades. Higher inequality is known to adversely affect national health and education outcomes, as well as increasing residential and other forms of segregation (Jencks 2002). Inequality is also harmful to democracy because it inhibits the representativeness of the national interest and the range of debate among the major political parties (Ferguson 1995). In terms of social cohesion and social capital, "[c]ommunity and equality are mutually reinforcing" (Putnam 2000:359).

Economic growth and social mobility are also hindered by high levels of inequality, though some economists like to argue that a moderate amount of inequality is beneficial to both, due to the incentivizing effects of potential advancement (Cornia and Court 2001). Others suggest that rising inequality within countries is a tradeoff for declining global inequality (Firebaugh 2003). Regardless, many people see equality simply as a desirable goal in its own right, as a matter of social justice (Milanovic 2011).

My dissertation examines the question of how the rise of neoliberalism—or the market *über alles*—impacts national income inequality around the world. While many countries like the United States have experienced a sharp divergence of household incomes in the last few decades, there are far more popular explanations of this disparity than there are careful studies of empirical data, which could better inform potential solutions and remedies. The existing research suffers from several shortcomings. First is that all but the most recent research has had to incorporate sub-standard data for cross-national comparisons. I will address this by using the best available data today, though still not without its limitations.

Second, there are methodological shortcomings related to the analysis of cross-national data which I acknowledge and remedy. This refers to the exclusion of between-country variation and what these differences between countries can teach us. Third, there are operationalization problems with neoliberalism, in which past research has failed to capture the phenomenon in its entirety. Moreover, there is a determined failure by many researchers to fully consider neoliberalism as a likely explanation because it contradicts the myth of liberal democracy and capitalist benevolence. In other words, properly understanding neoliberalism requires power elite analysis.

Lastly, the most popular explanations of rising inequality blame otherwise largely benign trends such as globalization and technological advancement. This obscures the political nature of neoliberalism, especially how the rich are able to dominate political economy at the expense of the masses. In doing so, it makes it appear that inequality is just a byproduct of progress, that we must accept it as inevitable, and that only minor policy reforms will be effective. Systemic change would, in this view, threaten global progress. The reality, however, is that neoliberalism is neither inevitable or progressive, and it bears primary responsibility for rising inequality. I provide evidence to support this argument and demonstrate the other shortcomings noted above with my research design, which is split into three components.

The first third of my dissertation research is dedicated to operationalizing neoliberalism. I argue that the study of neoliberalism and its relationship to inequality have been obfuscated by several competing theoretical perspectives, namely globalization, neo-Keynesianism, dependency theory, and economic freedom. According to my review of the literature, we should view neoliberalism as a social and political project that emerged in the economic stagnation of the 1970s—a way for corporate elites to revitalize profits and return on investments generally by just about whatever means necessary, regardless of the consequences.

These means have included tax cuts, social spending cuts, deregulation of business, finance, and labor, neoliberal monetary policy (placing inflation control above full employment), industrial and corporate restructuring, free trade regimes and foreign investment, export-led growth, and the growing power of global economic institutions. What has misled past work is that these processes may appear separate but have actually been part of a wider project with a common goal.

I then use publically available cross-national data to empirically capture this neoliberal project with a set of 42 indicators. I examine the inter-correlations of these measures, and then use factor analysis to provide a guideline for combining the many related measures of economic liberalism into a small number of manageable dimensions. I compare these dimensions with data on trends like economic globalization, as well as industrial and corporate restructuring and others. The results show there is some shared variation, indicating a common underlying association with neoliberalism, as well as partial independence, indicating that some measures should remain separate in future analysis rather than combined with other dimensions.

In the second part of my dissertation, I apply this new operationalization of neoliberalism to the study of inequality. I analyze cross-national data on household income inequality against several different dimensions of neoliberalism. I also deconstruct inequality into two components: between-country and within-country variation. I argue this provides a better comparison than past studies have relied on. Between-country variation captures deeper institutional and cultural dissimilarity among countries, while within-country variation captures more superficial but more malleable policy shifts and time trends. Both kinds of variation are useful, but past research has either only examined the latter, or failed to purely separate them for comparative purposes.

In this second research chapter, I also explore two potential kinds of non-linear relationships between neoliberalism and inequality. First, I look at how the interaction between neoliberalism and a country's level of development affects inequality. I do this to assess how much the effects of neoliberalism on inequality might vary from less developed to more developed countries. Second, I explore curvilinear effects to see if neoliberalism might drive countries toward less inequality at low levels but toward more inequality at high levels. Combined, these two non-linear effects provide a more nuanced and realistic account than would the simple linear effects.

In the third and final research chapter, I start with the same basic linear model I established in the previous chapter. But instead of exploring the nuances of neoliberalism’s effect on inequality, I attempt a more confirmatory analysis. In light of past research, the results of the second research chapter could be interpreted as if neoliberalism is simply one of many other explanations for inequality. Using different theoretical frameworks, other research papers have indeed made this argument.

But instead of concluding that neoliberalism is simply part of a long list of unrelated explanations for inequality, I attempt to show that neoliberalism offers an underlying explanation of these seemingly unrelated trends. To do this, I use different interaction effects from those in the second research chapter. The interaction terms here are between neoliberalism and the popular alternative explanations, which tests whether neoliberalism actually changes the relationship between inequality and the alternatives. In other words, I assess whether the effect of factors like globalization and technological advancement on inequality are contingent on relatively high levels of neoliberalism, the kind seen much more frequently in recent decades.

Although the research chapters are written as stand-alone pieces, they clearly build on one another, in that the previous chapter provides the starting point for the next. They also build toward the conclusion of this dissertation that neoliberalism has been instrumental in causing inequality to rise in the way that it has. Future research and decision-making should accommodate these findings to better address inequality in the years ahead.

Following this introduction, Chapter 2 explores the meaning and development of the central concept of neoliberalism, including a historical background section on how it displaced the Keynesian consensus of the early postwar period and a section on the major consequences of neoliberalism, using the United States as an illustrative example. The third section of Chapter 2 develops the theoretical framework for the dissertation by explaining exactly what neoliberalism is and how it came to be.

The third chapter concentrates on the dependent variable by first reviewing the literature that explains variation in national income inequality. The gaps and issues with this past research inform the dissertation's research design, which is outlined in the second section of Chapter 3. This is followed by some methodological considerations in the remaining sections. The research itself is then presented as three separate, stand-alone articles in Chapters 4 through 6 which draw upon the common core ideas in Chapters 2 and 3. The last chapter concludes with a summary of the dissertation's main findings and a discussion of their implications for addressing inequality and for future research.

CHAPTER 2

UNDERSTANDING NEOLIBERALISM

There have been two major elite doctrines of political economy that have dominated, both domestically and globally, since WWII. The first is referred to here as Keynesianism,[i] which was shaped largely in reaction to WWII and the Great Depression. Keynesianism championed government intervention to save capitalism from itself and ensure economic growth and full employment. The second doctrine is neoliberalism, which emerged during the economic stagnation of the 1970s and the subsequent delegitimizing of Keynesianism. Neoliberalism instead champions the free market and scorns government bureaucracy as stifling to private profit and the entrepreneurial spirit.

In the first section, I outline the historical background of neoliberalism and some of the major events of political economy during the second half of the 20th Century. In the second section, I analyze the consequences of neoliberalism since the 1970s in comparison with the early postwar period of the 1950s and 60s, focusing on the United States as an instructive case. Lastly, in the third section, I develop a theoretical framework for understanding neoliberalism and compare it to previous frameworks. In

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[i] It is debatable how much Keynes's name should apply to this period, considering his ideas were hardly followed as he argued them. The same could be said of Adam Smith, whose name is exchanged religiously by free marketeers who know little about the actual spirit of his work. On the left, debate has long raged over whether the failures of the Soviet Union could be attributed to Marxism or not. In these cases, the men themselves had died before the social systems emerged that came to bear their names, and none ever followed their ideas very faithfully. Regardless, the works of these men helped inspire those in power and their rhetoric was used as justification for the public, and it is in this way only that the appellations should be interpreted.

Chapter 3, I draw on this framework as I describe my approach to investigating cross-national income inequality.

Neoliberalism Ascending

> The idea of "free contract" between the potentate and his starving subject is a sick joke, perhaps worth some moments in an academic seminar exploring the consequences of (in my view, absurd) ideas, but nowhere else.
>
> —Noam Chomsky

The earliest incarnation of neoliberalism took shape in Latin America by means of U.S. coercion and force. On September 11th, 1973, Chile's democratically elected government was overthrown. The socialist Salvador Allende was replaced with Auguste Pinochet, who, aside from brutally repressing political opponents, began a process of economic liberalization and import substitution. Neoliberalism's first major electoral successes in the West came with Ronald Reagan in the U.S. and Margaret Thatcher in the U.K. In China around that time, Deng Xiaoping had also begun a process of liberalization that "was to transform China in two decades from a closed backwater to an open centre of capitalist dynamism" (Harvey 2005:1).

In this way, the neoliberal regime was taking shape throughout the 1970s and 80s. By "regime," I do not mean the autocratic government system that exists domestically (as in the USSR), but follow the usage of the international relations literature of a relatively loose system of "implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations" (Krasner 1983). This usage helps us to distinguish the logic of certain periods in the history of world order. At the end of the Cold War, there was a major international push for economic liberalization in the 1990s both inside the former USSR and in many developing countries with the disappearance of the Soviet deterrent to Western intervention. Thus by the 1990s, the neoliberal regime had achieved unquestioned dominance.

The neoliberal regime, with its purported preference for the free market over the state, supplanted the earlier regime of political economy that is often referred to as Keynesianism, after the British economist John Maynard Keynes. In the early 1970s, even though the president was a Republican and a member of the Right, Richard Nixon once famously remarked, 'We are all Keynesians now.' As David Harvey conjectures, Democratic president Bill Clinton might just as well have remarked in the 1990s, 'We are all neoliberals now' (2005:13). When, how, and why this shift occurred is the subject of this section.

Keynesian economics advocates state intervention, often in the form of fiscal and monetary policy, to dampen the business cycle and ensure high employment—continuous growth and full employment are the ideal goals. In times of economic crisis, such as the Great Depression, in which Keynes wrote his most influential work, the state is also expected to intervene in production itself, such as building important infrastructure, spurring economic activity, and providing jobs directly. This action was meant to increase demand among consumers and businesses, and should be pursued even if the government has to take on debt due to fiscal imbalance, both of which were radical deviations from the conventional wisdom of the time. Economists before Keynes recommended less state intervention, lower taxation, and budget balancing as the best way to deal with a crisis. (Keynes *General Theory* 2007 [1936])

Keynes was also very influential at the Bretton Woods conference, a meeting of the allied nations at the end of WWII to decide the future of international financial relations. The conference led to the establishment of the World Bank and International Monetary Fund, what is referred to as the Bretton Woods system. These institutions were to oversee development loans and stabilize currency exchange. All currencies of the world were fixed to the U.S. dollar, and the U.S. dollar was backed with gold. Not only did this system mark the greatest extent of institutionalization among the world economy in history, it also represented one of the deepest global interventions on the free market. (Eichengreen 2008; Woods 2006)

The Keynesian era was also characterized by tight regulation of financial capital domestically. Investment banks were not even allowed by the New York Stock Exchange to be publically incorporated until 1970. They were mostly partnerships until that time, which were relatively risk-averse when it came to making investment decisions (Morrison and Wilhelm 2004). Consequently, the Keynesian era was one in which production capital was far more prominent than financial capital, beyond just their share of the GDP (Harvey 2005).

In addition to the new economic role of the state, the Keynesian regime also oversaw an unprecedented amelioration in class tension, at least in the advanced industrial economies that dominated international affairs (Harvey 2005). This involved a new legal and tacit acceptance of labor organizations, which had been deradicalized during WWII, among government and business. It also involved relatively extensive provisions of social welfare and worker protection—the welfare state—such as education, housing, healthcare, the minimum wage, 40-hour week, and so on, which were again rather novel in the history of capitalism. Combined with Keynesian fiscal and monetary policy, this system of “class compromise” is often referred to as the “Keynesian compromise” or “soft capitalism.”

A major think tank of this era was the Committee for Economic Development (CED), which by the 1960s was home to top officials from 91 of the biggest American corporations. According to David Kotz, it was “the most important channel through which big business came to express its support for collective bargaining, Keynesian macropolicy, and the welfare state, as well as seeking to influence the specific features of those institutions” (2015:78). The goal was to use interventionist government policy to maximize both production and employment.

Kotz argues that big business’s interest in preserving collective bargaining and high employment seems contradictory today, but it had its reasons. This includes a Fordist recognition that workers are also consumers and need to be able to afford what is produced, as well as a fear of radicalism when work cannot be found, much like what happened with the growing popularity of socialism and communism during the Great Depression.

The post-war period up until the 1970s was a period of unprecedented economic growth and employment within developed countries. It was also a period in which many countries saw substantial declines in inequality, so the economic growth was relatively egalitarian. The post-war period is often referred to as the “golden age of capitalism” due to this widespread prosperity. Faith in the mixed economy led people to believe that the good times would more or less last indefinitely.

Republican President Dwight Eisenhower observed, “Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history. There is a tiny splinter group, of course, that believes you can do these things. …Their number is negligible and they are stupid” (qtd in Hacker and Pierson 2010a:189). In a few decades however, their numbers would be legion, and many of those in power would consider them brilliant.

The Keynesian regime and class compromise of the golden age started to come undone in the 1970s. This decade included several important crises which attracted attention among global and domestic decision-making elites, crises that called into question the old ways of doing things. Most importantly, economic growth was slowing worldwide while inflation and unemployment were on the rise. From 1973 to 1975, there was a major global recession, one more severe than anything seen since the Great Depression. Manufacturing, the foundation of postwar growth, was feeling the strain of domestic market saturation and foreign competition.

In part because of inflation, and because of the high cost of the Vietnam War, the United States was finding more and more difficulty backing up its currency in gold. Washington was looking to print more money, but was inhibited by the gold supply. Moreover, the 1965 recall of gold by French President de Gualle had started a trend that would eventually deplete existing U.S. gold reserves. Consequently, in 1971 President Nixon took the U.S. off the gold standard, making the dollar a free floating or fiat currency.

No longer could any individual, bank, or foreign government request gold for its dollars—the dollar was legal tender by nothing but the word of the U.S. government. This was a historic moment in world economy, which had always been backed by precious metals going back to ancient times. In other words, money has since been traded on its market value alone, not by its relation to gold. (Eichengreen 2008; Smith 2003)

Part of the economic downturn is also related to the oil shock of 1973. The member nations of OPEC, in protest of American support of Israel during the Yom Kippur War, had declared an oil embargo. This, of course, caused a major spike in the price of oil worldwide, putting pressure on many economies' energy costs. It is much easier to have high economic growth when oil is cheap. A second crisis ensued in 1979, when after the Iranian Revolution, the future of Middle East oil was uncertain. Prices had again spiked and impacted economies around the world, reaching almost $100 per barrel in real terms in 1980. The 1970s were also the decade that saw oil production in the First World begin to decline, having surpassed peak oil and making a reliance on imported oil a greater necessity for the decades to come. (Harvey 2005)

Not unrelated to the oil crisis and overall economic downturn, there was a general Third World debt crisis as international debt started to grow exponentially (Harvey 2005). In the 1960s and into the 1970s (with the addition of OPEC money into major global banks), Third World countries had borrowed large sums of money to fund development. This was particularly true in Latin America, where there was a movement for import-substitution industrialization (ISI).

The logic of ISI was that development would follow if Third World countries could break their dependence on imports manufactured in the First and Second World.

They could nurture their own domestic infant industries, protected from the world economy, until they were competitive enough to reopen for global trade. The logic is sound; this is precisely how the U.S., the U.K., and most other wealthy countries developed in the past, before coming to favor free trade (Chang 2003).

Unfortunately, much of Latin America and the Third World never became competitive enough to repay the initial loans. The blame for this cannot entirely be placed on the Third World countries themselves. Many of the loans were irresponsibly made to corrupt dictators, who squandered the money and left the public to foot the bill. Furthermore, much of the money did not go into nurturing infant industry but back into the hands of Western firms. However, here is not the place to get into it too deeply. What is relevant is that the debt crisis occurred and something had to be done to address it.

Sometimes loans can be forgiven, but more often they are simply renegotiated so that payments can still proceed at lower interest rates and/or on longer schedules of repayment. However, alongside of and conditional to payment restructuring, was a new movement toward "structural adjustment" of economic policy. These were programs designed for each individual developing country that had come into default to make certain changes to its internal structure, as determined by the IMF. Although development loans always had some conditionalities, they had never been used in this way before—as a systematic intervention into the governing of Third World countries. Although the required adjustments varied by country, they often included the privatization of state-owned enterprises, fiscal austerity, deregulation of business and finance, regressive taxation, trade and investment openness—simply put, neoliberalism. (Woods 2006)

Another crisis facing many nations was what a Trilateral Commission report called, *The Crisis of Democracy* (Crozier, Huntington, and Watanuki 1975). Essentially, the mass popular movements of the late 1960s and early 1970s, something that might elicit praise for their incorporation of formerly disenfranchised people into politics and other important institutions, constituted a crisis. The perception of an "adversarial" news media was also considered a problem for the effective functioning of the state. The authors share the image of these events as "the disintegration of civil order, the breakdown of social discipline, the debility of leaders, and the alienation of citizens" (2). Such a view has been influential and helped create a general counter-revolutionary backlash against much of the democratic gains of those years. It is in this reactionary environment that neoliberalism flourished.

Much of the intellectual inspiration for neoliberalism comes from economist Milton Friedman, always critical of Keynesian demand-side economics, as well as the free market economist and philosopher Friedrich Hayek, who like Friedman won the Nobel Prize in economics in the 1970s. In Friedman's seminal work *Capitalism and Freedom*, he argues that the "free private enterprise exchange economy," i.e. capitalism, is the only system which provides individuals with economic freedom, which he conceives as not only the freedom to trade with whom you want and to sell at the prices you want but most crucially the freedom to form contracts with other individuals without outside intervention (1982 [1962]).

Through these contracts without centralized, external control, "[c]ooperation is thereby achieved without coercion" (13). Everyone, in this view, has at least some property, namely their labor, which they can exchange in the market for what they need as long as they are free to do so. Thus property rights are “the most basic of human rights and an essential foundation for other human rights” (Friedman and Friedman 1998:605). “But if the labourers could live on air,” wrote Marx, “they could not be bought at any price” (*Capital*, chapter 24.4). Ideologues like Friedman do not consider the threat of starvation and homelessness for not working to be a form of coercion. In this way, neoliberal ideology focuses only on freedom from (or negative freedom) rather than freedom to (positive freedom), or simply opportunity.

The role of government, then, is very limited and only has to do with functions that are necessary to preserve greater freedom. Three very important functions among many other smaller ones include the enforcement of contracts entered into voluntarily; the definition, interpretation, and enforcement of property rights; and the provision of a monetary framework. In this way, Friedman advocates that the government should maximize economic freedom rather than focus on economic growth or full employment, tasks in which it can only foster stagnation and inefficiency.

This perspective would attract many followers in the decades to come. As Paul Krugman observed above, it would become part of a new conventional wisdom in economics—perhaps representing a revitalization of the doctrines that had been dominant before Keynesianism. Indeed, Mosley et al. (1995) note a shift in the cultural atmosphere of economic intellectuals during the era of neoliberalism. They describe the spirit of the times as “a weariness with complexities and multiple and conflicting responsibilities for governments” (10).

International bureaucrats under neoliberalism would much rather focus on the technical aspects of economics—aspects which increasingly centered on the interests of the free market—rather than the issue of distribution. The crises of the 1970s provided the impetus for change and neoliberalism gained popularity. Many important institutions such as the World Bank saw "a dramatic shift away from a pluralist, participatory ideal of politics and toward an authoritarian and technocratic ideal…" (16).

A similar process of institutional liberalization was occurring within countries as it did internationally. It started with the appointment of Paul Volcker to the U.S. Federal Reserve in 1978, and continued with the elections of Margaret Thatcher in the U.K. and Ronald Reagan in the U.S. (Harvey 2005). This "right turn" in politics brought down the New Deal democrats in the U.S. and would lead to a reorganization of the party system and the political coalitions of both the Democrats and Republicans (Ferguson and Rogers 1987).

By 1979 in the U.S., the CED had abandoned its Keynesian orientation, declaring that "the country would be well served by freeing markets from ill-designed government constraints" (quoted in Kotz 2015:104). New think tanks and lobbying groups were also organizing as the old ones shifted their positions. This includes the Business Roundtable (founded in 1972), Heritage Foundation (1973), and Fraser Institute (1974). Meanwhile, conservative and libertarian groups that existed before the 1970s came into increasing prominence, such as the Hoover Institution and American Enterprise Institute (AEI). In fact, by 1980 the budget of the AEI alone surpassed that of the Brookings Institution, one of America's oldest and most influential think tanks (Kotz 2015:105).

In subsequent years, just about every country in the world would experience a rightward shift in national politics, which embraced a greater role for the free market in the economy. Many of the social welfare policies that characterized the post-war class compromise would slowly come under attack, subjected to declining funds, reorganization, or outright dismantlement. Simultaneously, there came pressure to privatize government production, especially in housing, education, utilities, and media (Harvey 2005). Countries varied, of course, in the extent to which government played a direct role in production, but although the starting points differ, the shift toward privatization is practically universal.

In addition to state withdrawal from social provision, Volcker and the Fed would help institute a new system of monetarism, one expanded by his successor Alan Greenspan and supposedly aimed at counteracting inflation through the control of interest rates. While high inflation is certainly a problem for investment, the new role of the Fed was also about keeping employment relatively low. High employment keeps the supply of workers tight, pressuring employers to raise wages and thus putting a squeeze on business profits (especially the more labor-intensive industries). The Fed under Greenspan has actually tried to slow economic growth at times, by raising interest rates, in order to prevent unacceptable employment growth (Baker 2006). “The low inflation rate” since the 1990s, according to David Kotz, “was primarily due to the lack of bargaining power on the part of workers and the resulting wage stagnation of neoliberal capitalism” (2015:152). The anti-Keynesian orientation of central banking officials clearly no longer had an interest in full employment, livable wages, or even maximal economic growth, as it had during the post-war period. The new orientation was private profit.

The Fed also took a very lenient stance toward finance, unlike what Keynes would have advised. Under neoliberalism, deregulation was championed, and parts of the economy eventually transformed from a productive manufacturing economy into a speculative financial one. The proportion of financial value added to that of all corporations grew from about 4.5 percent in 1950 to 13.1 percent in 2015. Moreover, financial profits grew from 7.8 percent of all corporate profits in 1950 to a highpoint of 43.0 percent in 2002 before the lead up and aftermath of the 2008 financial collapse.[ii] The process of financialization is closely associated with neoliberalism, referring to the economic transformation in which financial markets come to dominate productive markets in industry, service, and agriculture.[iii]

The changes were not simply seen at the policy level, but in the decisions of business leaders all over the world. The slowing economic growth of the 1970s and 1980s created a profit squeeze that corporations, as profit-maximizing institutions, had to address. Several strategies emerged which gained widespread recognition and incorporation, and would become part of a major "corporate restructuring" that would change the qualitative nature of work and production (Harrison and Bluestone 1988).

[ii] See U.S. Bureau of Economic Analysis, NIPA Table 1.14. Retreived March 26, 2016.

[iii] Something similar happened in the early 1900s as financial trusts came to dominate the industrial economy. The major symbolic event of financial capital's triumph over industrial capital was financier J.P. Morgan's buyout of industrialist Andrew Carnegie's steel company in 1901 for almost $500 million. Proportional to the size of the country's economy at the time (over 2% of GDP), it is arguably the biggest private equity acquisition in history. However, the first two decades of the 20th Century differ from the last three in that financial capital, although dominant, was increasingly regulated. Financiers like Morgan wanted to distinguish themselves from speculators and vulture capitalists like Jay Gould, and actually supported regulations to a certain extent. It was only in the 1920s, after the wave of regulations during the Progressive era came to an end, that financial speculation ran rampant, leading up to the stock market crash of 1929 (Kotz 2015).

First, there were searches for more "flexible" employment arrangements, mainly utilizing the lower costs and commitments of part-time employment, leading to a "casualization" of the labor force. Second, there was a resurgence in class warfare as businesses sought to lower collective bargaining power and minimize labor costs. In the United States, for example, union density fell from a postwar peak of about 35 percent in 1954 to about 11 percent today (DeSilver 2015). Similarly, the minimum wage declined in terms of purchasing power. In current 2016 dollars, the minimum wage peaked in 1968 at about $11 per hour, and reached is lowest point in 2006 at about $6.[iv]

Third, many factories moved operations overseas where wages were lower, a movement that gained momentum in the 1970s and would accelerate in the 1980s and 1990s. Fourth, companies would not only move production but would also increase investments overseas, taking advantage of developing markets which did not have the level of market saturation seen in mature economies. Lastly, many corporations would look to innovative financial instruments to promote short-term profits (Harrison and Bluestone 1988). This focus on short-term financial gain even with relatively high risk investments would turn countries into "casino societies," in the words of Susan Strange. All of these strategies would help maintain capital accumulation and the profitability of the economic system under neoliberalism. But at what cost is an issue I discuss in the next section.

[iv] United States Department of Labor. "History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938 – 2009." Retreived May 5 2016 (www.dol.gov).

Assessing Neoliberalism

There is no alternative.
—Margaret Thatcher

What have been the consequences of the neoliberal turn? In short, it has been great for the wealthy and privileged, and not-so-great to quite alarming for everyone else. Amazingly, the world's top one percent now owns more than half of the world's total wealth. Income trends are likewise "sobering," according to U.N. economists. "Since the early-mid 1980s inequality has risen in most countries, and in many cases sharply" (Cornia and Court 2001:5). Moreover, these statistics are understated because they do not account for the world's growing supply of hidden money. Berkeley economist Gabriel Zucman estimates that $7.6 trillion, or about 8 percent of the world's financial wealth, is hidden in offshore tax and regulatory havens (2015).

On the whole, the neoliberal era has been characterized by "diminished progress" (Weisbrodt et al. 2002). What this means is that the substantial gains made worldwide in education and health outcomes have stalled since the 1980s. Economic growth in many countries is also noticeably lower than it was during the Keynesian era. The belief that public intervention can address these problems is also long gone, replaced by faith in private sector entrepreneurialism.

In this section, I focus on the United States and its experiences after WWII as an exemplar of the consequences of neoliberalism. I do this primarily because the United States is a very capitalistic society and always has been. It provides perhaps the clearest picture of what the transition from Keynesianism to neoliberalism has meant. Secondarily, it is arguably the most powerful country, with the strongest influence on the international neoliberal agenda. In addition, the United States is one of the best documented and well-studied countries. Many countries, however, have had similar experiences in the last few decades, though usually to lesser degree.

As Figure 1 shows, family income in the United States grew rapidly during the early postwar period, and actually grew fastest for the bottom quintile, leading to a decline in inequality under Keynesianism. In the neoliberal period, only the top quintile has seen substantial income growth, while the bottom has seen practically no growth in

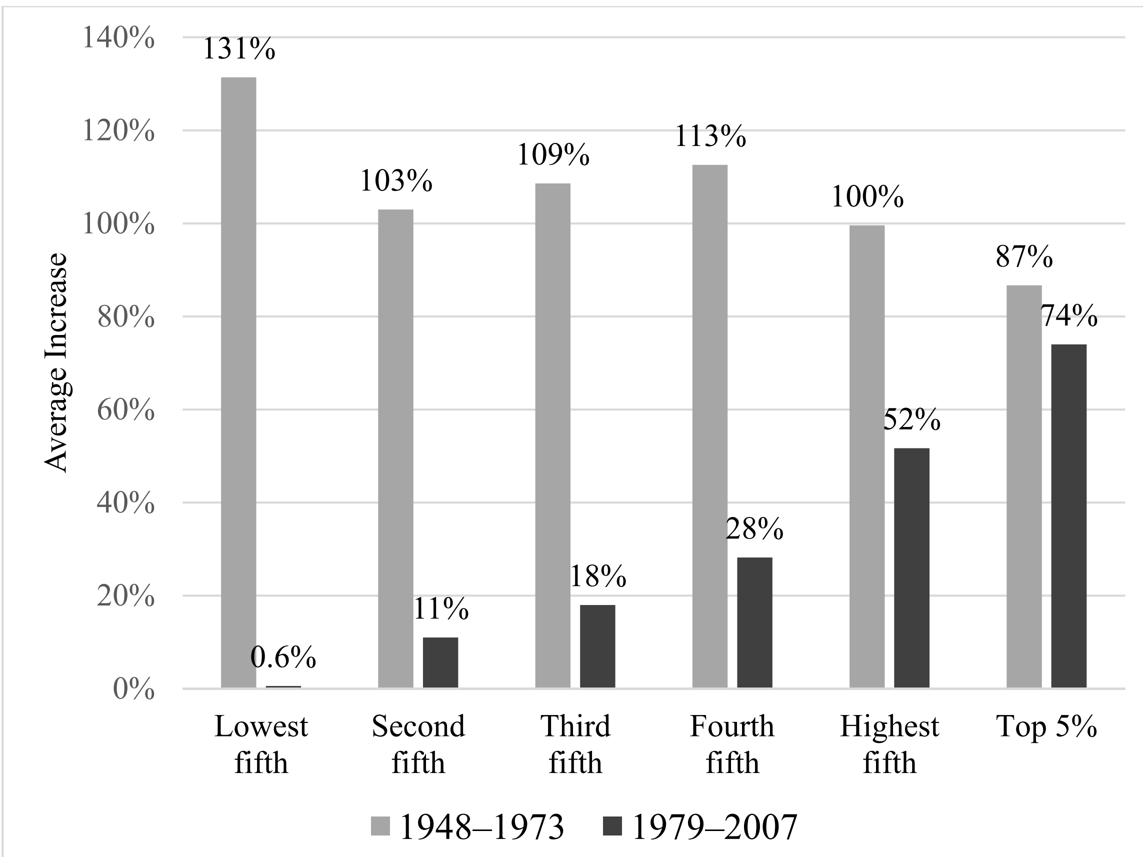

Figure 1. Average Real Family Income Growth by Quintile with Top 5 Percent

Source: Kotz (2015:136).

real family income for almost thirty years. For the top 5 percent of families, little in fact has changed since the golden age of capitalism.

While the rich may be doing well, the economy as a whole has not. Growth in GDP has been declining over the long run. As Figure 2 shows, growth exceeded 4 percent during the 1950s and 60s, but fell to just over 3 percent during the middle three decades. Since 2000, growth has only been around 2 percent. Unemployment, meanwhile, was under 5 percent during the golden age, but rose sharply in the 1970s and

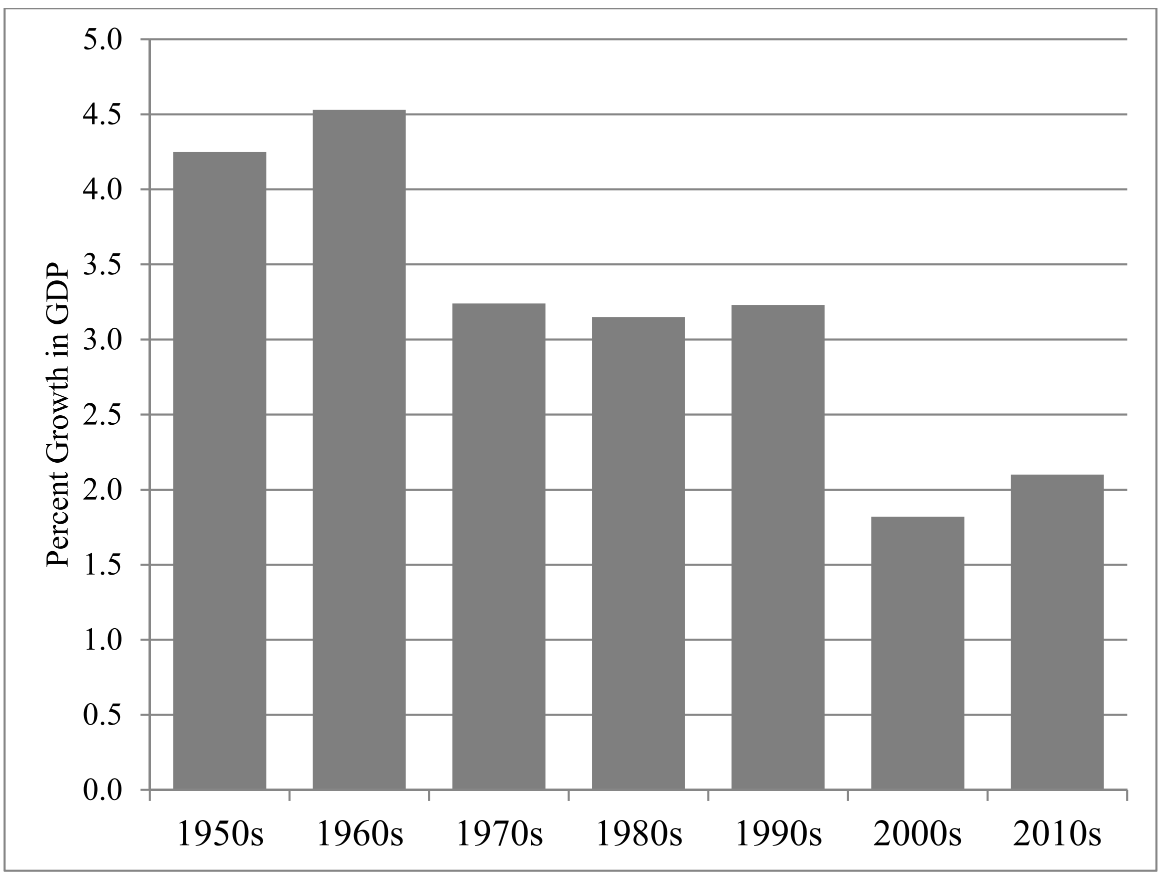

Figure 2. U.S. Postwar Economic Growth by Decade

Source: U.S. Bureau of Economic Analysis.

80s before recovering, but only partially, in the 1990s and 2000s (Figure 3). Since the Great Recession, unemployment has skyrocketed—and although as of 2015 it has recovered to less than 6 percent, there are many more people today that have given up looking for work, making the official unemployment rate appear lower.

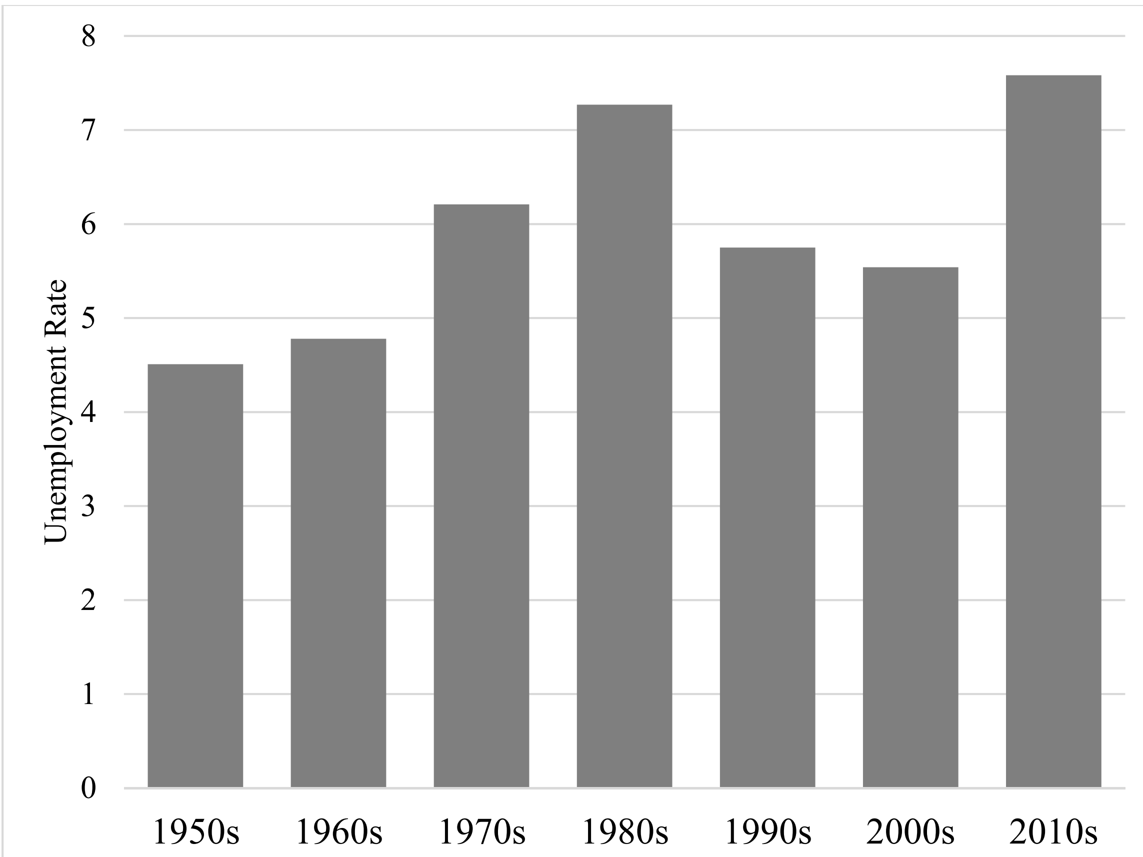

Figure 3. U.S. Postwar Unemployment Rate by Decade

Source: U.S. Bureau of Labor Statistics.

Inflation, on the other hand, shows progress during neoliberalism (Figure 4). After rising sharply in the 1970s, it declined to the same levels as the Keynesian period by the 2000s, probably becoming too low since the Great Recession. Similarly, during what is

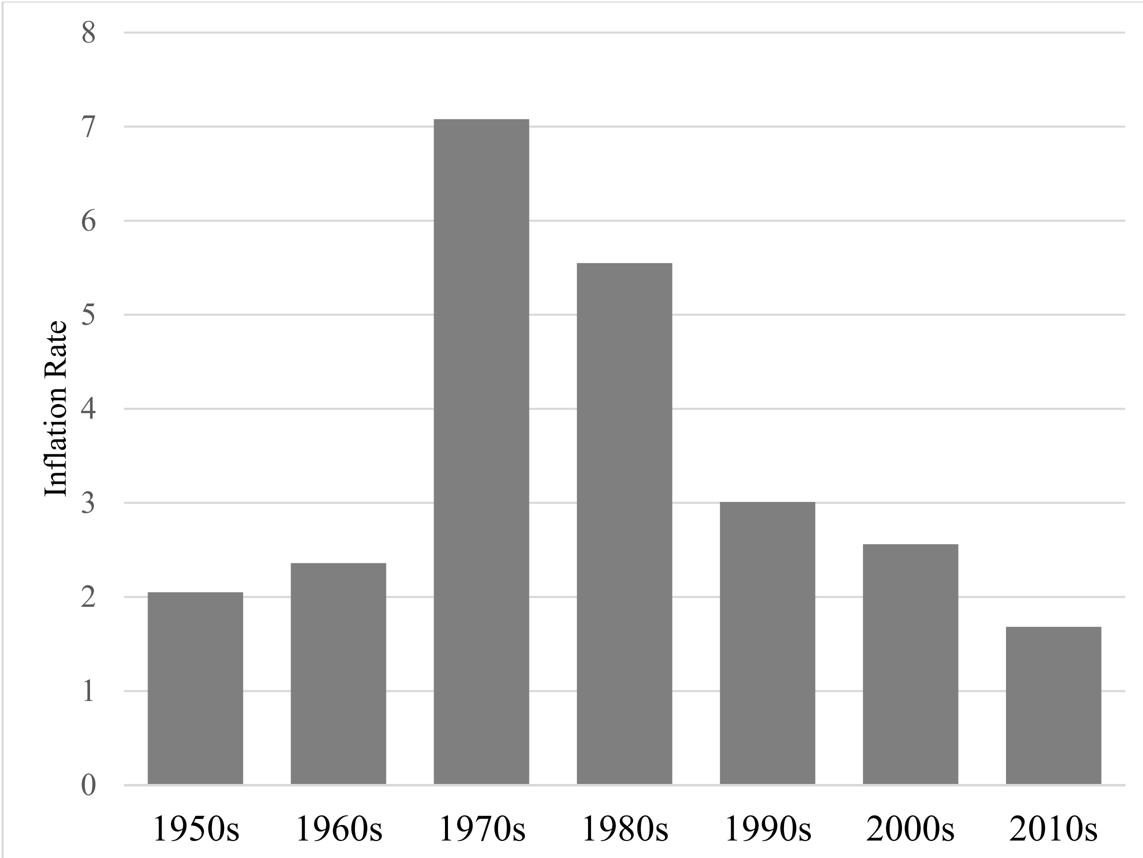

Figure 4. U.S. Postwar Inflation Rate by Decade

Source: U.S. Bureau of Economic Analysis.

called the Great Moderation from the mid-1980s to the mid-2000s, the volatility of the business cycle was reduced. Although economic growth was lower on average, it fluctuated to a lesser degree than in the past. It is yet unclear whether increased volatility has permanently returned or the Great Recession simply created a temporary crash in growth.

Productivity continued to grow during the neoliberal era (Figure 5), experiencing only a small dip in the 1970s and 1980s before reaching its most rapid growth during the 2000s (Figure 6). The same cannot be said for real wages. They have stagnated since the

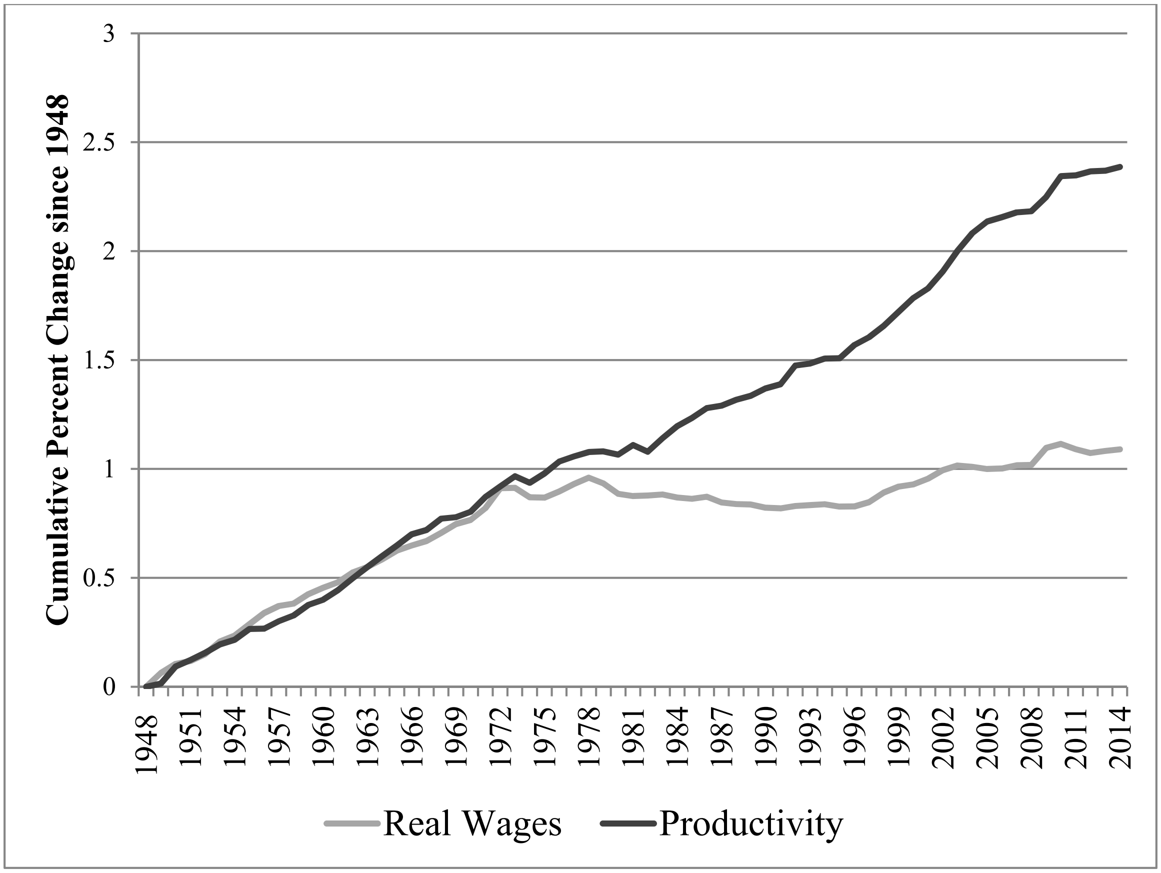

Figure 5. Cumulative Change in Real Wages versus Productivity (1948-2014)

Source: Bivens and Mishel (2015).

early 1970s, and have diverged substantially from productivity since then. In terms of growth, even the highly productive 2000s did not see a return to golden age levels, and the 1980s and 2010s actually experienced negative growth in real wages.

These figures are a little biased as well. The cost of labor, which includes wages, are a negative factor on productivity, along with the cost of capital. In other words, despite growing labor costs, productivity was able to climb throughout the 1950s and 60s by generating more revenue from utilizing that labor and capital. Since the 1970s, productivity has increased in part due to cutting labor costs wherever possible. This

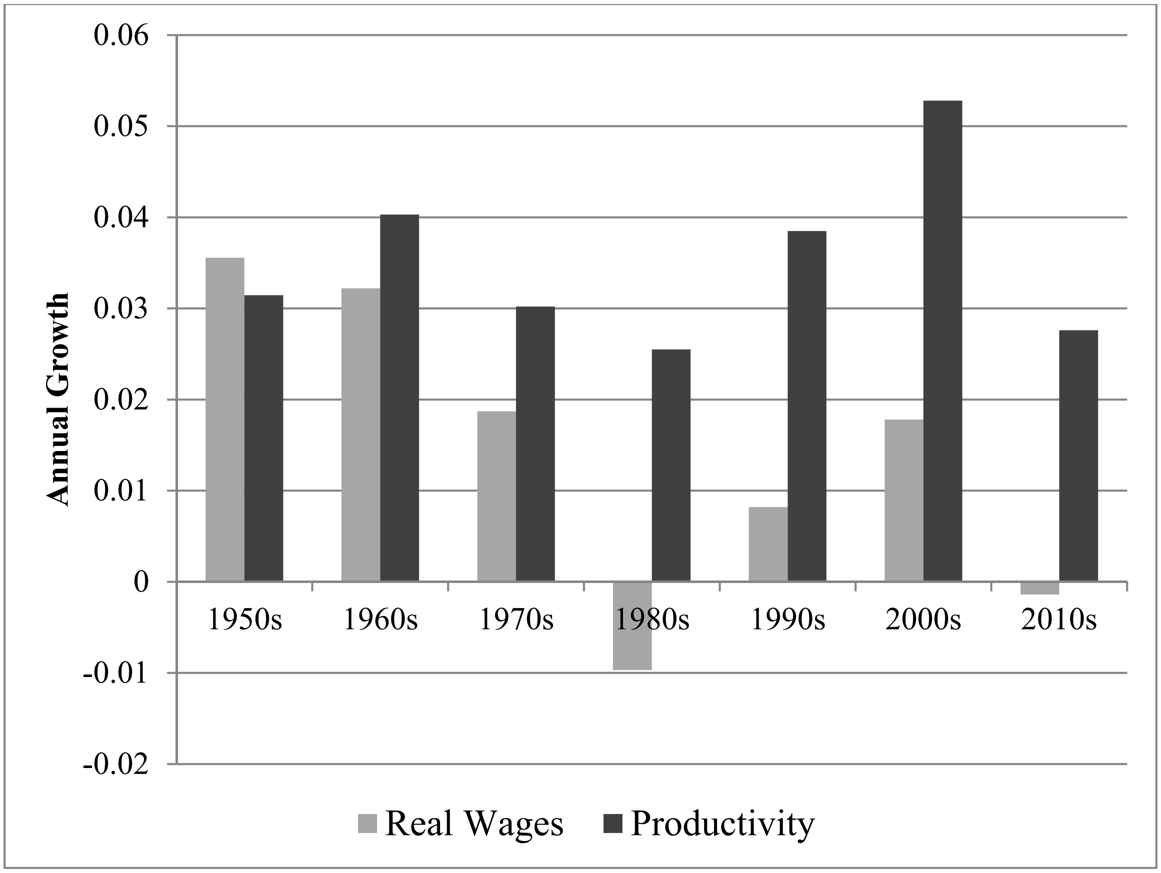

Figure 6. U.S. Postwar Growth in Real Wages and Productivity by Decade

Source: Bivens and Mishel (2015).

neoliberal trend has consequently helped create a labor market characterized by precariousness and insecurity.

Corporate profits, like productivity, only experienced a modest dip in the 1970s and 80s, before climbing in the later neoliberal period (Figure 7). Despite the Great Recession and stagnant economic growth, the 2010s have so far experienced levels of profit unprecedented in the postwar period. That is relative to GDP, however. With low national and global economic growth, the prospects for future profit are far from assured.

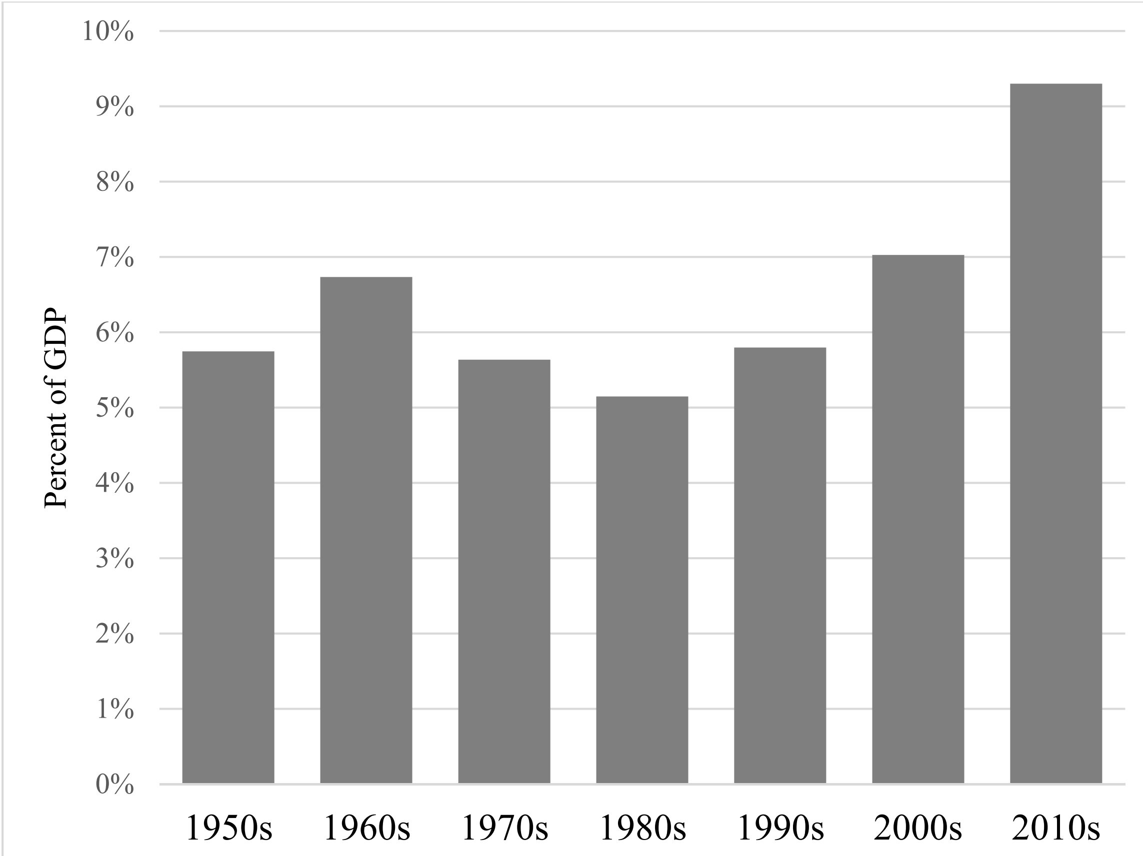

Figure 7. U.S. Postwar Corporate Profits after Taxes by Decade

Note: With Inventory Valuation and Capital Consumption Adjustments.

Source: U.S. Bureau of Economic Analysis.

In many ways, these figures illustrate a tale of two economies. Since the 1970s, economic growth, unemployment, and wage growth have largely stagnated or declined. Despite this poor economic performance, however, productivity, inflation control, the stability of the business cycle, and profits have done reasonably well. While the former set gives a picture of serious concern, the latter is cause for celebration, for some groups at least.

As for public investment, America's infrastructure has been crumbling and in a state of disrepair due to decades of insufficient maintenance and modernization. The American Society of Civil Engineers gave the country's transportation, energy, sanitation, and other infrastructure an overall poor grade of "D+" in its latest report card. More generally but not unrelated, neoliberalism is creating a "sociopathic society," according to sociologist Charles Derber. Such a society is one whose institutions encourage anti-social behavior in its members through "norms that assault the well-being and survival of much of the population and undermine the social bonds and sustainable environmental conditions essential to any social order" (2013:4).

What happened in 2008 has been characteristic of the neoliberal era. "There were no significant asset bubbles in the U.S. economy," Kotz informs us, "from 1948 to 1973." Since then there have been several, each larger in magnitude than the last. Most recently, this includes the dot.com bubble of the late 1990s and the real estate bubble of the 2000s. These have in large part been driven by financial deregulation and the increasingly risky and speculative nature of neoliberal capitalism.

The real estate bubble was also inflated by increasing mortgage debt until its collapse in 2008. Indeed, much of consumer spending in the face of economic stagnation during neoliberalism has been enabled through rising household debt, including student and credit card debt, each of which have surpassed one trillion dollars in the U.S. In the past, household debt had stabilized after the mid-1960s. "However, after the early 1980s the trend of household debt relative to income changed, rising over time and more than doubling from 59.2% of income in 1982 to 126.7% in 2007" (Kotz 2015:147). As with declining real wages, the financial speculation and debt that has fueled the neoliberal economy has likely become unsustainable.

The neoliberal response to the economic crisis of the 1970s is easy to criticize for its short-sightedness, especially post-2008. However, it is unclear that economic growth could ever be as robust as it was in the early postwar years. The largest overarching barrier is long-term market saturation following the postwar technology boom. This is

Figure 8. Average Vehicles per Household (United States, 1925-1995)

Note: Assumes constant household size of four people.

Source: U.S. Department of Transportation Federal Highway Administration, and U.S. Census Bureau.

well illustrated in Figure 8 by the average number of vehicles per household across the 20th Century. There was tremendous growth during the golden age of capitalism. That growth was slowing by the 1970s, and ended in the 1980s (Figure 9). The figures understate the gap between periods as well, since population growth was higher in the 1950s and 60s, and because in later decades more vehicles were foreign ones.

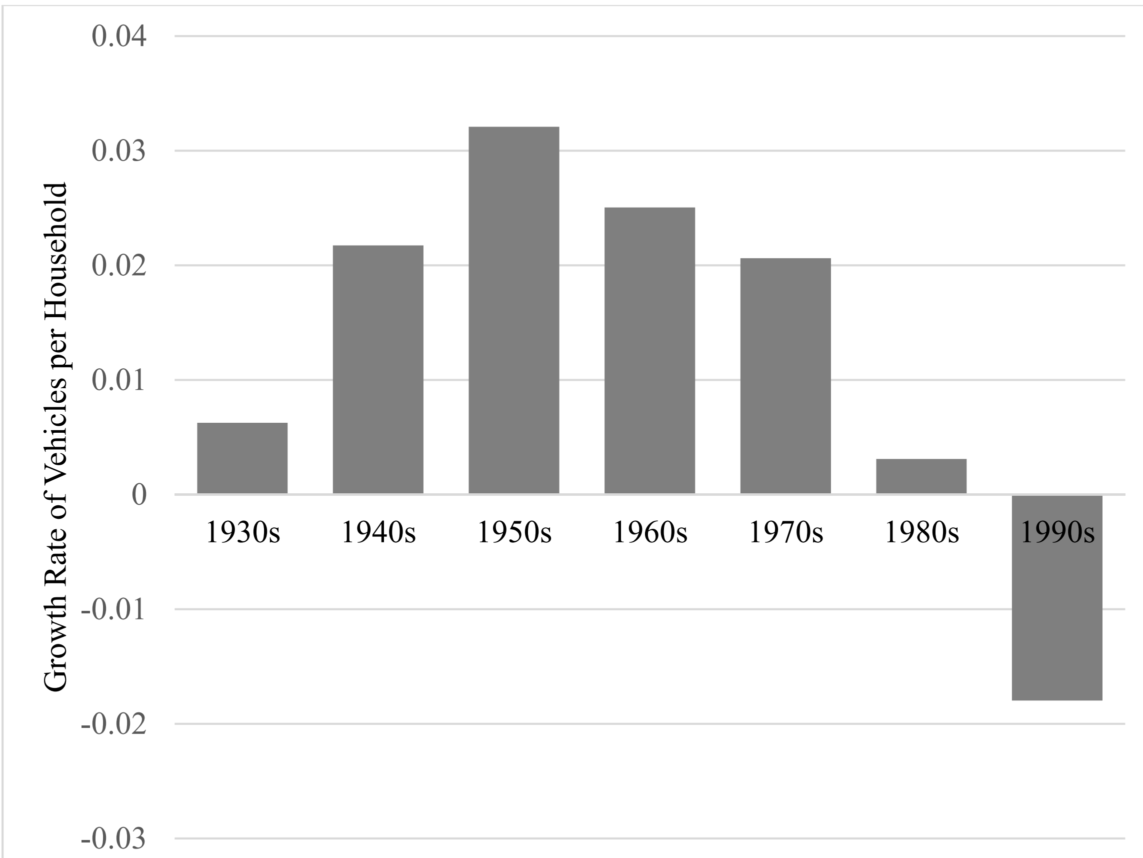

Figure 9. Growth of Vehicles per Household by Decade

Note: Assumes constant household size of four people.

Source: U.S. Department of Transportation Federal Highway Administration, and U.S. Census Bureau.

It was not just cars, which are as emblematic of postwar industrialization as the railroads were of 19th Century industrialization. There were many new appliances and products appearing after WWII, filling nearly every household across the country. But by the 1970s and 80s, many of those markets saturated. Consumption of cars, refrigerators, microwave ovens, televisions, and so forth, had come to reach replacement levels and have largely remained there since. It is simply not possible to maintain the same level of growth in the context of such widespread saturation.

To be sure, new technologies have been developed. But nothing like the early postwar period has been seen before or since. Indeed, it is quite telling that during this so-called information age, newspapers and magazines are a dying industry, and publishing is a weak market at best. Other industries have survived in spite of, or flourished because of, Internet technology, but these information industries have been decimated, mostly by widespread declines in reading levels.[v]

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[v] According to Gallup and Pew Research Center polls, the proportion of American adults who did not read a single book in the past year tripled from 8 percent in 1978 to 23 percent in 2014, which includes audiobooks, as well as e-books in later years (Weissmann 2014). A study by the National Endowment for the Arts (NEA) concludes, "There is a general decline in reading among teenage and adult Americans. Most alarming, both reading ability and the habit of regular reading have greatly declined among college graduates. These negative trends have more than literary importance. As this report makes clear, the declines have demonstrable social, economic, cultural, and civic implications" (NEA 2007:5). The newspaper trends also preceded the rise of Internet technology. According to *General Social Survey* data, over 68 percent of adults read the newspaper daily in 1972, but by 1993 only 46 percent did (Smith et al. 2015). What counts as "reading" the news has also changed over time, since online readers are probably more likely to read fewer stories than those who hold an entire physical newspaper in their hands. Furthermore, all these reading trends understate the decline because of rising education levels over time. People read more in the past despite lower rates of college graduation, and read less today despite higher rates of college. On one

Furthermore, consumption of new technology has been limited by neoliberalism's obsessive devotion to minimizing labor costs. Elites have forgotten that workers are also consumers. Many industries today could really be more labor-intensive, if only it was a priority. Following Say's Law, neoliberals assume that demand always materializes to meet supply, but in reality workers need to be paid relatively well to uphold sufficient aggregate demand.

Only luxury consumers can afford many hi-tech household appliances that exist today, unlike in the past. Investors have been untroubled by such a two-tiered economy, arguing that investments should be made in the wealthy "plutonomy" while ignoring the rest (Kapur, Macleod, and Singh 2005). It should go without saying that this strategy is unsustainable, again made all the more obvious since 2008. Neoliberalism, however, did not develop to create sustainable, long-term growth or a prosperous working class. Investors have surely made a lot of money from the plutonomy. They have simply forgotten that the golden age was not a period of luxury but of mass consumption.

With less inequality and greater consumption power for the working class, and even some of the middle class, the economy could be stronger today. The same is true if production of new technology was more labor-intensive than neoliberalism prefers. Without the rampant household debt and financial speculation, the economy probably would not have collapsed in 2008, though it was already in recession before the financial crisis. There have always been alternatives to neoliberalism, even ones friendly to capitalism.

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last note, new technology makes print cheaper and more available for consumers, so Americans are reading less despite easier access to material than in the past.

During the Reagan years, Robert Reich (1983) argued that American industry was not overburdened with taxes, regulations, and labor costs. Instead, it had become uncompetitive due to the inflexibility of top American executives and labor leaders, succumbing to bureaucratic glut and mismanagement. He praised the industrial systems of Japan, West Germany, and Sweden, which were much better able to incorporate flexibility and innovation alongside worker security (sometimes called flexicurity). These countries were more competitive and, relevant to this research, less unequal.

Similarly, by the time Reagan was leaving office the MIT Commission on Industrial Productivity had released its report on America's competitiveness (Dertouzos, Lester, and Solow 1989). It argued that weaknesses came from a corporate preoccupation with the bottom line, outdated strategies, insufficient cooperation both within and among firms, neglect of human resources, technological failures, and poor government actions. It recommended production models that were more inclusive and representative of workers, and would create greater productivity and flexibility. Like Reich, the authors did not blame big government or labor *per se*, but rather saw these interest groups as solutions to the country's economic problems.

Reich has become a bit more radical since the 1980s, arguing we should give every American adult an "opportunity share" of the country, "a diversified index of stocks and bonds" that would decrease the excessive concentration of ownership that exists under capitalism today (2014). The promise that widely owned shares would revolutionize capitalism has been made before, when corporations rose to prominence in the mid-1800s. Proponents of corporations failed to realize that the wealthy holders of most of the shares would continue to dominate (Bakan 2012).

In his more recent documentary, *Inequality for All*, Reich makes sure to stress that capitalism, while generating much inequality, has done some great things for the country. While he says this, an image of an Apple store is shown on screen (2013). He apparently sees no irony in this example, despite the fact that the technology that makes all of Apple's products possible was developed almost entirely through state funding of military and university research, that tech engineers and entrepreneurs learn a great deal at publically subsidized universities using subsidized student loans before moving to the private sector to profit off their education, or that intellectual property rights not only make their exorbitant profits possible but stifle innovation and protect them from price competition, directly harming consumers.

In fact, economist Dean Baker (2006) calls richest man in the world Bill Gates the "ultimate welfare queen" because of how remarkably dependent his fortune is on government actions, past and present. Unlike Apple's Steve Jobs, Gates was also convicted of criminal conspiracy to monopolize the software market, but only forced to pay a small fine and allowed to preserve his monopoly. Trust buster Teddy Roosevelt was surely turning in his grave.

In contrast to these big monopolies, the open source movement provides a serious alternative to the privatization of software production and distribution. In fact, even big tech corporations recognize open source software is better overall, using it themselves and releasing some of their code to the public to foster innovation. Except for the code that makes them the most money, which they keep secret not for the purposes of creative innovation but purely to uphold their bottom line (Slee 2015).

Reich once wrote in awe of capitalism, “Greed and fear are potent evolutionary forces” (1983:278). Machiavelli would nod in approval. The state of neoliberal capitalism today, and inequality, shows that greed and fear can become even more potent when so much of the population cannot expect a decent living. But, it does not have to be that way. There are also alternatives to neoliberalism not so friendly to capital. In *America Beyond Capitalism*, Gar Alperovitz (2005) argues more vigorously that there are many anti-capitalist alternatives that already exist. These include worker- and community-owned enterprises, cooperatives, and credit unions, as well as public trust funds like Social Security and Medicare.

These alternatives provide more realistic methods of public participation—in cooperatives unlike corporations all members have an equitable say. Alperovitz is suggesting that socialism would not require a Bolshevik Revolution in the U.S., only expanding these already widespread institutions. In fact, the International Co-operative Alliance claims that about 250 million people (over 3.5 percent of the global population) are employed by cooperatives worldwide. In the U.S. today, the government is by far the largest employer with about 22 million workers, outnumbering manufacturing almost 2:1 (Jeffrey 2015). The largest private employer is Walmart with about one million employees, who, unlike many state workers, have no collective bargaining.

Almost half of those working for the state work in education. Services like public education, as well as infrastructure, utilities, public transportation, mail, public-access media, and community banking, have long been recognized as too important to be left to the private sector alone. Even economist Jeffrey Sachs, who advised Poland in its transition to capitalism, recognizes five major reasons for public ownership over private (2006:252-4). This is necessary to:

1. Prevent private monopolies, to which infrastructure networks are particularly vulnerable
2. Support collective knowledge and the institutions that produce it, like universities
3. Collectivize externality costs ignored in market transactions, especially in polluting industries like extraction
4. Provide access to basic necessities, like education and healthcare
5. Overcome the poverty trap, providing initial investments so the poor can begin to accumulate savings

Sachs surely has a limited range of sectors for which he thinks these conditions apply, but I have trouble thinking of any at all that do not satisfy at least one condition for public ownership, particularly externalities because there are so many communal goods besides the environment.

The great irony of capitalism is that the 1970s should have actually been a time of celebration. We had all this new technology, we made the products, and for the most part we all got a share of them—there should have been a banner hanging over Wall Street saying, "Mission Accomplished." Instead, capitalism was in crisis, because without continued and unending profits and capital accumulation, the system collapses (Harvey 2010).

Taking for granted this profitability requirement, mainstream discussion in the 1970s and today since 2008 have been dominated by a concern for reinvigorating economic growth. No one in the mainstream ever thinks to eliminate the growth requirement itself. But unlike private enterprise, many institutions do not need to grow or die. Indeed, the railroads faced a similar problem in the 19th Century. Consequently, many countries (but not so much the economically liberal U.S.) turned to public ownership of rail (Perelman 2006).

The more sectors with public alternatives, the less strain on the economy there will be when profitability is low, as it appears likely to be for some time to come. Roughly half of economic growth during the entire prewar industrial era was simply due to population growth (Piketty 2014), which has now either ended in many countries or expected to end sometime in the 21st Century. If the economy remains largely privatized, the growth necessary to sustain it will be difficult to achieve, unless there is another major wave of technological innovation, as well as a consumer base strong enough to support it. But those markets would saturate eventually as well.

In sum, under the neoliberal regime that began replacing Keynesianism sometime in the 1970s, much of the population and society as a whole have fared rather poorly. Capital accumulation and profitability have largely been achieved through unsustainable and dangerous means, such as financial speculation and consumer debt, and by overburdening labor. Whereas those in power were quick to turn away from Keynesianism in the past, contemporary economic turmoil has left their loyalty in neoliberalism shaken but, unfortunately, undeterred. In the next section, I develop my theoretical framework for understanding the nature of neoliberalism—what exactly changed but also what stayed the same.

Theoretical Framework

> "A suffocating bipartisan consensus cloaks the defining elements of our political economy. … The two parties wage furious debates about the color of the frosting, but the cake is already baked."
>
> —Robert L. Borosage, *The Nation*¸ April 2015, p. 124

In this section, I first develop my theoretical framework, and then discuss some prevailing alternatives and why my argument offers a better explanation of neoliberalism. I use the power elite concept as a central element to understanding neoliberalism and what has happened to political economy over the past several decades. Far too often, we think of decision-making in terms of the political system, or that the public actually determines policy, but the decisions made in the higher circles have already shaped the political spectrum in the interest of the dominant class long before elections take place (Ferguson 1995).

Sixty years ago, sociologist C. Wright Mills observed that an elite network of national leaders among the country's major corporations, the state, and the military made influential decisions that had enormous consequences for the country as a whole. While the two political parties debate tactics and strategic concerns, the goals and framework of American policy have already been determined by this "power elite," as Mills called them (2000 [1956]).

The power elite, however, is not monolithic. It takes time for a new consensus to emerge when the old one breaks down, and some disagreements always remain. The decisions are thus *collective* ones, which become prevailing doctrine because of the power and prestige of these elite denizens. More importantly, their doctrine is not shaped in the general interest but in the interests of the dominant class, namely capital, from which much of the power elite originate (Domhoff 2010 [1967]). It is a corrupt culture that Mills called the "higher immorality."

The consensus of these "higher circles" can most easily be seen in foreign policy. According to the *Foreign Policy Disconnect* (Page and Bouton 2006), political science has long been dismissive of public opinion as ignorant, reactionary, and incoherent. However, the authors find that the public is actually fairly consistent on foreign affairs—and rather dovish—wanting to see less militarization, less foreign intervention, more diplomacy, and more international cooperation. American elites, in contrast to the public but quite in line with multinational corporations, are instead noticeably hawkish, preferring greater militarization, greater foreign intervention, less diplomacy, and greater unilateralism. In application of elite doctrine against the public's wishes, the world has not been made a more peaceful or democratic one, but it has been kept a highly profitable world (Chomsky 1992).

In politics, both neoliberalism and Keynesianism before it profoundly shaped the two-party system to the extent that today's Democrats look like yesterday's Republicans. Furthermore, it is not just policy that is decided in the higher circles—elites often have direct control over the country's major institutions, including big business, the national media, and elite universities, and can shape society in deeper ways than politics and public policy ever could.

In addition, the "power elite are not solitary rulers," as C. Wright Mills noted. "Advisers and consultants, spokesmen and opinion-makers are often the captains of their higher thought and decisions" (2000:4). For this research, making sense of political economy also requires reference to the major economic think tanks that influence and inform the decision-making process of the elite. Mills is often accused of “conspiracy theory,” but much of this process is out in the open. The public can see much of the same research and thinking that those in power see, but do not necessarily share the same upper class bias when interpreting it.

Far too often, the study of neoliberalism portrays the neoliberal ideology as having persuaded the elite on its own merit, apparently a superior alternative to Keynesianism. But, as Mills warns, “There is nothing about history that tells us that a power elite cannot make it” (25). Neoliberal ideology simplified what was already happening with a nice, digestible story, however disconnected from reality that story might be. It also helped to justify the changing consensus of the higher circles to a skeptical public. The response to the stagnation of the 1970s, so dependent on “zapping labor,” needed a glossy coat. This explains why neoliberalism never gained popularity until that time.

After all, as Noam Chomsky often notes, ideas are rather supple, rarely at a loss in service to power and privilege. Neoliberal ideologues were largely ignored and ridiculed throughout the Keynesian period, and if their ideas had failed to justify the later neoliberal consensus, someone else’s ideas would have. In other words, it is the class interest of the power elite in the face of emerging economic challenges that largely determines their decisions, more so than any beliefs. However ideologically faithful elites as a group appear to be, neoliberalism could be abandoned just as quickly as Keynesianism was. If they decide they need government intervention to save their wealth and privilege, there would be no shortage of neo-Keynesians and their ideas to justify another turn.

I summarize the theoretical framework used here in Figure 10, which I illustrate using the crises of the 1970s, as well as the Great Recession later in this section. While the old Keynesian political economy led to market saturation, the exogenous forces of the 1970s summarized in the previous chapter—the depleting gold reserves, the oil shocks, the debt crisis—helped create an emerging global economic crisis. This led the power elite to reconsider the postwar system. Heavily influenced by their perceived class interest—namely upholding capital accumulation, their power and privilege generally—they decided systemic change was needed and developed a social project to that end.

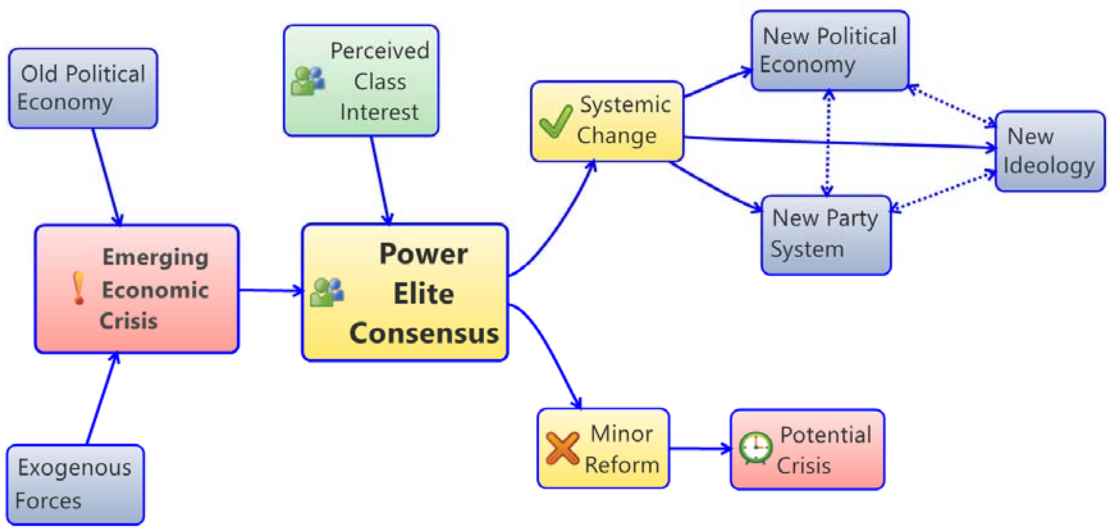

Figure 10. The Power Elite Framework

This project was essentially neoliberalism, and it involved three basic components. Foremost, it reconfigured political economy directly through industrial and corporate restructuring, globalization and financialization, as well as the roll back of the labor movement, among other institutional changes. It also created a new party system where even left wing parties supported neoliberalism,[vi] enabled by the aggressive political mobilization of the rich. Lastly, the neoliberal ideology rose to prominence from obscurity to help justify the new system. The three developments were mutually reinforcing (hence the dotted arrows), but they were all dependent on the new consensus of the power elite (hence the solid arrows).

I further develop my theoretical framework from a consideration and critique of three alternative narratives to the emergence of neoliberalism. These include two arguments from political scientists, as well as an argument from a Marxist theorist. I briefly outline these alternative frameworks and argue why they are problematic and why the power elite framework provides a more realistic account. In general, I argue that they either misconstrue or obscure the proper causal order illustrated in Figure 10.

Political scientist Mark Blyth (2002) argues that the losers of the first great transformation of early industrial capitalism were the workers, who endured low wages and crippling and dehumanizing working conditions. Over time though, they organized and pressed for change, especially after the economic collapse of the Great Depression that saw upwards of 25 percent unemployment.

The fruit of these efforts, according to Blyth, was to "embed" the free market in social institutions that would curtail its excesses. Specifically, this included the state, and to a lesser extent labor unions. The economic ideas of Keynes and others at this time

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[vi] "Over time leaders of left-of-center political parties in many countries, whose main base has been the working class," writes Kotz, "have run campaigns for office on a platform criticizing neoliberalism, yet once in office, have instead accepted neoliberal institutions, pursued neoliberal policies, and even on occasion deepened neoliberal transformation" (2015:153).

were instruments, wielded by proponents of labor to enact a second great transformation of industrial capitalism. This postwar system is referred to then as "embedded liberalism."

Writers at the time, Blyth points out, thought embedded liberalism was the "end of ideology," referencing Daniel Bell's eponymous 1960 book, in which Bell argued that the old ideological tensions between capitalism, socialism, and democracy had been resolved in the postwar system. According to Blyth, it was shortsighted to think that the losers of embedded liberalism, namely business, would not fight back against the postwar system.

Subsequently, liberalism would become "disembedded" in the 1970s, as reactionary business leaders organized against the pro-labor policies of the New Deal to free up markets from institutional constraint. Economic ideas would again be instruments, or weapons, for institutional change, but this time in the form of what would later be called neoliberalism. The new era has again been painted as the end of the great debates of the past. Now capitalism is the only answer—this time referred to as *The End of History* (Fukuyama 1992)—a conclusion which only holds if the losers of "disembedded liberalism" cannot be expected to fight back in turn, with new economic ideas in their arsenal.

A serious flaw with Blyth's argument is the assumption that markets can ever be disembedded. Economic activity involves social interaction and this interaction must take place within social institutions. They may be formal or informal, state or non-state, but institutions are omnipresent. One could theorize that wage setting shifted from the institution of collective bargaining to an interaction between an individual worker and the whole company inside the corporation, but Blyth does not.

More importantly, Blyth is mistaken to argue that labor somehow created the Keynesian system or that business was the loser of the postwar period in any way resembling how workers were during early industrialization. Organized labor everywhere merely influences political economy, but in no serious way do they set the agenda as big business does. To be sure, labor has more influence in other Western countries besides the U.S. However, this influence is generally not true participation in decision-making in the Millsian sense.[vii]

The logic is similar to teachers using student evaluations. The teacher may wish to make minor adjustments here or there to appease student unrest—or not—and may even be compelled to do so by their superiors, but there is no doubt who is in charge and who controls class design. And even this class design is confined to an educational system with certain requirements, like grades, beyond the control of any single teacher, determined collectively by the elites that have the power to make such decisions. In the wider political economy at any point in time, the resources at workers' disposal—in

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[vii] In Sweden, for instance, "the Rehn–Meidner plan literally offered to gradually buy out the owners' share in their own businesses and turn the country into a worker/share-owner democracy," providing a radical alternative to the problems of the 1970s (Harvey 2005:15). Meidner was "chief economist of the largest trade union federation in Sweden and co-founder of the Swedish welfare state," but neither his popularity nor labor's relatively powerful influence in Sweden brought the plan to fruition. "Not surprisingly, Sweden suffered a severe corporate backlash to the plan, leading to the effective gutting of the project and to the ouster of the Depression-era Swedish Social Democratic Party for the first time in its history" (Rubin 2013). When labor's influence actually threatens power and privilege, its impotence is exposed. Put another way, workers are sometimes at the table, but they have never been in the back room where real decisions are made.

terms of money, expertise, access to important institutions and political leaders, influence on the media and intellectual circles—are so far behind the power elite that it is like comparing apples to oranges.

Furthermore, the Keynesian era was hardly a paradise for labor organizations. The Taft-Hartley Act—which organized labor at the time called the "slave-labor bill"—was passed in 1949, overriding President Truman's veto with support from many Democratic Congressmen. It was right at the start of the so-called system of embedded liberalism. And labor could hardly press for much throughout the era of Cold War hysteria and McCarthyism. The modern day "right to work" legislation is simply part of a long history of class repression in the United States.

I argue it would be better to think of the early postwar period as an era of passive-aggressive class repression, while since the 1970s it has returned to a system of open class warfare. Indeed, Blyth fails to see the consistencies of the two periods and not just the differences. Both were designed in the higher circles and sought to maximize capital accumulation at the expense of labor, and both consequently produced a tremendous amount of social inequality, even if the later period produced more.

Big business in no way endured a thirty-year defeat only to rise again in the 1970s. There is no doubt that the interests of capital were critical in shaping the Keynesian period, fearing the economic catastrophe of the Great Depression, as well as the worker unrest and the political extremism that followed. Economic growth, as mentioned above, was at historic levels. The heavy-handed market intervention and high taxes were believed to be necessary to sustain that growth and prevent unrest. In foreign affairs, the distinction is clearer—workers were hardly served by an imperialistic campaign in Indochina or the Cold War itself. Why indeed would big business revolt during a golden age of capitalism?

Blyth is right to place ideology and politics in the back seat to political economy. Other commentators provide a more realistic picture of the political landscape than Blyth, but fail in that regard. Political scientists Jacob Hacker and Paul Pierson (2010a) argue how changes in tax policy, industrial relations policy, corporate governance policy, and financial regulation have led to greater inequality in the U.S. The political system is primarily to blame in their view, as winner-take-all politics have created a winner-take-all economy.

But what caused the political system to change? They argue it was “the striking transformation of the balance of organized interests that has advantaged those at the top of the income distribution” (2010b:272). They go on that “business actors have become considerably more powerful both in absolute and relative terms over the past three decades, that they have used their growing advantages to press relentlessly for favorable tax and regulatory policies, and that they have done so with considerable success” (2010b:273). In short, the rich got better organized and expended more resources in politics.

This is undoubtedly true, but still only answers the how and not the why. After all, the rich have always been the best organized, so what propelled them to do more? A better explanation would be that the new neoliberal consensus of the power elite needed a stronger push than the Keynesian consensus precisely because of how it would affect the working class and much of the middle class. Indeed, this push has hardly been confined to politics. Hacker and Pierson fail to appreciate how the institutional change they discuss has also occurred, and sometimes more deeply, in economic institutions (Harrison and Bluestone 1988) and in many public institutions like universities (Olssen and Peters 2005).

Furthermore, the solutions to the problem of inequality reflect their flawed explanation. If the rich had less political influence—say, after campaign finance reform—neoliberalism may be softened, but it would hardly be reversed. The rich did just fine shaping politics before the unlimited spending allowed by the 2010 *Citizens United* Supreme Court decision. Conversely, neoliberalism could reverse without any electoral reform, if the power elite decides a neo-Keynesian system is needed in the face of global economic stagnation. Like Blyth, Hacker and Pierson forget that the consensus of the rich has always dominated politics, regardless of the particular political system at the time.

There is also a timing problem with Hacker and Pierson's story. It is similar to the timing problem for explanations of neoliberalism that focus primarily on globalization (Kotz 2015). Many of the trends that are purportedly to blame do not accelerate and reach unprecedented levels until the 1990s and 2000s, well after neoliberalism had become the dominant consensus. Metaphorically, they are trying to use one symptom to explain others, and misdiagnose the underlying disease.

Indeed, how can globalization, wealth concentration, or business political organizing explain the social transformations since 1970 when they were all at minimal levels during the 1970s and only rose afterwards? The framework I use can better explain this, because a consensus can change very rapidly, but the project to realize this new consensus, which includes globalization, upward redistribution, and political mobilization, takes time to materialize and achieve major political, economic, and social victories.

Hacker and Pierson, however, are right to argue that voters did not principally bring about change, writing that “analyzing the electorate is not the place to start in answering this question” (2010b). The “right turn” in American politics did not initially reflect public opinion, which, if anything, became more liberal in the early 1980s. Instead, it reflected the business community’s growing disillusionment with Keynesianism and the New Deal (Ferguson and Rogers 1986).

Lastly, another theoretical explanation of economic transformation comes from the Marxist geographer and social theorist David Harvey (2005, 2010). He proposes that crises of various sorts inevitably stem from the inherent “contradictions” of capitalism. For a capitalist system to function, there has to be sustained capital accumulation, otherwise no one will make investments of any kind. But there will be unavoidable barriers to such continuous economic growth. The natural environment is one. The fact that labor constitutes a cost for production but also forms the mass consumer base is another.

Two contradictions, though, have special significance in the development of neoliberalism. Firstly, capitalism inevitably saturates its own domestic markets, thus cutting off the capacity for future growth and creating a crisis of profitability. I discussed this trend in the previous chapter. Secondly, capitalists can make a profit without any actual production, simply by taking advantage of market fluctuations in prices, i.e. speculation. Widespread speculation would see high profits but would lead to economic stagnation in real productive terms.

Marx, of course, assumed that its contradictions would destroy capitalism in the end, but the gift of hindsight tells us that capitalism has remained adaptable and has so far survived many crises. As Harvey argues, the golden age of capitalism was able to stave off the labor-consumer and speculation contradictions (through Fordism and regulation, respectively), but it nevertheless cultivated the profitability contradiction, as well as the environmental contradiction (the oil crisis). Postwar capitalism was again as adaptable in addressing these new crises as prewar capitalism had been in facing the Great Depression. Neoliberalism was this systemic adaptation, which Harvey defines as the reassertion of class domination through particular market-oriented strategies.

Offshore investment and production, the dismantling of the welfare state, privatization, deregulation, financialization, deunionization, corporate restructuring, and the substantial rise in mortgages, credit card and student debt (to inject money into the consumer base), are all various strategies related to new era of capitalism. These succeeded in reinvigorating corporate profit and preserving the capitalist system, but not without creating new contradictions as the postwar system had. Falling and stagnating wages, though offset by debt, have eroded the consumer base, and financialization and speculation have led to increased instability and the growth of economic bubbles at the expense of actual, physical production. Both of these "contradictions" have played a major part in the current economic downturn. Given that these contradictions have yet to be systemically addressed, Harvey expects the crisis to deepen in the coming years.

Harvey's argument goes much farther than Blyth's or Hacker and Pierson's in explaining not only the transformations in political economy but also the consistencies, which are much deeper. His Marxist analysis, however, can be rather abstract and rhetorical at times. His unfortunate use of the term "contradiction" is a Hegelian relic with no empirical validity.[viii] In the tradition of Marxist determinism, Harvey argues that given the nature of capitalism, it was only inevitable that Keynesianism would develop, fail, and neoliberalism would develop in its place and fail as well. In a sense, that is true, but it also does not really offer a causal explanation in the scientific sense. It amounts to a tautological claim that cannot be tested (cf. Skocpol 1977).

The framework used here provides a more realistic picture of the social transformations in the postwar period. It does not depend on the idea of an abstract capitalist system following a natural course of evolution, but instead depends on the perceived interests of those in positions of power. As discussed above, there are, and were, alternatives to neoliberalism, even ones friendly to capitalism.

Had elites followed the advice of Reich or the MIT Commission on Industrial Productivity, capitalism could have preserved the Keynesian aspects of the New Deal and still managed to grow productively and efficiently. Other Western countries have not gone as far as the U.S. in adopting neoliberalism, and their growth, while lower on average, has been more equitable. Furthermore, the long-term prospects for growth and stability did not have to be discarded in favor of short-term capital accumulation.

[viii] Hegel argued that history was driven by a dialectical evolution of ideas, in which the contradictions of an ideological thesis inevitably gave rise to its antithesis, and ultimately to a new synthesis. Marx followed the same basic formula, but replaced ideas with the means of production, thus ‘turning Hegel’s dialectic off its head.’ While it makes sense to say that an ideology is contradictory, it makes no sense to describe an actually existing economic system like capitalism as having contradictions. Contradictions cannot, by definition, coexist. The capitalist system undoubtedly has unsustainable aspects to it, but history shows these can be balanced by outside intervention, like taxes, and different forms of capitalism are more or less sustainable.

Keynesianism was adopted precisely to ensure short-term sacrifices. The unsustainability of neoliberalism should have been apparent.

Dumenil and Levy (2004) argue that the wealth crash of the mid-1970s largely created neoliberalism, and Harvey agrees calling neoliberalism the "restoration of class power." But according to their own data, the wealth crash had passed by the end of the 1970s. Why then did neoliberalism not become increasingly irrelevant over the next few decades, instead of increasingly popular and impactful? The power elite model explains this better than a model that only considers capitalism as a self-reproducing system. A one-time crisis persuaded elites to change their minds, and no amount of restored normalcy or economic crises have yet been able to break this consensus, despite the glaring need for systemic change.

It was not simply capitalism but the people in power who, forgetting the lessons of history, chose to take the world down a path of destruction and potential ruin in the name of markets. They chose short-term profits over long-term security. The power elite framework is superior precisely because it treats these decisions as the primary independent variable. Decisions will surely be influenced by other factors, not least of all their perceived class interest, but they are too chaotic and unpredictable to be completely explained by anything else, such as exogenous shocks to the economy. Conversely, elite decisions will have tremendous explanatory power once they are made, and they largely account for many of the subsequent transformations that other scholars have focused on.

Harvey's framework essentially skips the middle part of the process, where the emerging crisis directly leads to systemic change given the nature of capitalism, and no critical decisions are made by powerful actors. Hacker and Pierson mistakenly place the neoliberal party system in the middle of the framework, while Blyth does so with the neoliberal political economy. As I have argued above, these mischaracterize what happened in the past.

The framework in Figure 10 also works for the present. The neoliberal political economy helped create a new crisis in 2008 through its reliance on unregulated finance, growing household debt, and suppression of working class income. However, unlike during the 1970s, the elite consensus has so far decided that systemic change is not necessary. They have continued the policies of neoliberalism, remaining faithful that the market will solve its own problems without too much interference, and therefore preserved the groundwork for a potential crisis in the future. Without addressing the problems of neoliberalism, there really is nothing to stop another serious recession and major financial collapse.

The many Americans who supported the Bernie Sanders campaign were trying to create a political revolution without waiting for elites to change their mind. It is difficult to say how effective his hypothetical presidency would be, with a militantly intransigent opposition party and a thoroughly skeptical business community against him. In any case, Hillary Clinton has all but secured the Democratic nomination. But, if protest and unrest continue to build, not just in the U.S. but around the world, a new crisis, social rather than economic, could pressure elites to decide to abandon neoliberalism. The past "crisis of democracy" surely played a significant role in the rejection of the old consensus and the emergence of neoliberalism as we know it. One would hope that a similar crisis in the near future would meet with change that is more accommodating and less reactionary.

Whether through such a social crisis or a future economic crisis, or both, it seems unlikely that neoliberalism can last indefinitely. Preventing an economic crisis and disembedding neoliberalism are two major goals of the Sanders campaign. Another is addressing rampant inequality which I and many others argue has been driven by the ascent of neoliberalism. In the next chapter, I discuss the investigation of cross-national income inequality, the dependent variable in this dissertation, with the expectation that neoliberalism can largely explain the pattern of inequality across and within nation-states in the context of contemporary political economy.

CHAPTER 3

INVESTIGATING INEQUALITY

In this chapter, I first review past explanations of income inequality, leading to a discussion of what my research adds to these lines of inquiry. Since the three subsequent empirical chapters are written as stand-alone pieces, they already discuss methodological and theoretical issues to a certain extent. There will inevitably be some redundancy here, as with the previous chapter. In this chapter, though, I discuss how the three empirical articles connect to the dissertation as a whole. This includes the logic of the research designs and what each piece of research adds to the literature. This chapter also provides greater detail for some of the methodological themes and issues only briefly mentioned or implied in later chapters. This includes an outline of some operationalization questions—especially for the dependent variable income inequality. Lastly, I discuss some of the limitations of the project worth bearing in mind.

Past Explanations of Inequality

The economist Vilfredo Pareto was one of the first to study inequality with empirical data. He discovered through his research what is today called the Pareto principle or ratio, or 80-20 rule, in which the top 20 percent of individuals will account for 80 percent of the income. Pareto believed this to be something of an eternal ratio based on innate human differences in intelligence, skill, and capacity. Thus, any variation in actual income inequality is simply random deviations from the mean.

Contemporary research still assumes that inequality is partly based on differing capabilities, but the assumption that this always leads to a ratio of 80-20, regardless of a society's political, economic, or social context, has long been discarded. Instead, researchers today examine how levels of inequality change over time, and how they vary across societies, to determine how the structure of a society can lead to more or less equal outcomes.

What counts as a "society" has become increasingly contested considering the widespread international integration of accelerating globalization. Consequently, I will first discuss the literature that focuses on the whole world as a society, highlighting some of the weaknesses of this approach to contrast with the strengths of my proposed approach, which is to treat countries themselves as individual societies. Then, I will review the literature that has sought to understand variation in national-level inequality, by using factors such as globalization, skill-biased technology change, internal political organization, and demographics.

The Limits of Global Inequality

Many studies of income inequality have tried to compile a measure of global or world inequality, rather than country-level comparisons, especially those interested in the effects of globalization in the last three decades. They do this by calculating a between-country component of global inequality with per capita GNPs as a rough proxy for national average incomes and a within-country component compiled typically from household surveys and government records.

Studies of global inequality have found mixed results, however. While they all find that income inequality for the entire world is much higher than it is in any individual country, the direction of change since around 1980 is still disputed. Some studies find that there has been income divergence, or greater inequality (Sheehey 1996;

Korzeniewicz and Moran 1997; Schultz 1998; Wade 2004; Clark 2011), while others find that there has been convergence (Melchior and Telle 2001; Firebaugh 2003; Milanovic 2005; Sala-i-Martin 2006). Still other studies find that there is no trend one way or the other (Bhalla 2002; Dikhanov and Ward 2002; Dowrick and Akmal 2005).

Sudhir Anand and Paul Segal (2008) argue that given all these contradictory findings, no one can really say that inequality in the world has changed; there simply is no consistent evidence. Glenn Firebaugh (1999), however, argues that there is some method to all the madness. Studies that use currency exchange rates to standardize cross-national incomes tend to find divergence, while studies that use the purchasing power parity (PPP) index tend to find convergence. He cites research that the former is systematically biased because it is influenced heavily by currency speculation and exchange, which is conducted only by a small minority of people, as well as many other reasons. The PPP index, however, is calculated based on a large bundle of goods, which can be found in all countries and involves exchanges by much larger proportions of the world's population.

Another issue is that studies finding divergence tend not to weight national average incomes by the size of the population. However, since the national average, based on per capita GNP, represents the entire country's population, the mathematics require one to multiply the income by the number of people in the country (effectively transforming per capita GNP back into GNP). Indeed, because China has almost one-fifth of the world's population, it should not be weighted the same as the rest of the world's 191 nations. As China has been experiencing rapid economic growth for several decades, this has a major impact on global inequality. In other words, properly weighting the data by population size, according to Firebaugh, shows that there has been declining global inequality.

This argument is meant to override the concerns of those who assail rising inequality as missing the bigger picture. In this view, rising inequality within countries is a tradeoff for declining global inequality, indicating that its consequences are not all necessarily bad. However, the findings are simply not strong or consistent enough to make such a claim with any confidence. Indeed, Firebaugh does not provide any confidence intervals, so there is no way to know what the expected margin of error is for his claim.

Assuming for the sake of argument, however, that global inequality has indeed declined, the question is why? One problem with studies of global inequality is that there is only one world. Firebaugh and many others try to use the univariate trend in global inequality to show that globalization has not made the world more unequal but somewhat less, but this evidence is only circumstantial. To analyze global inequality more deeply, Firebaugh breaks it down and looks at how different countries have grown in terms of their GDP at different rates. In other words, he uses cross-country level analysis rather than global analysis, the same level I propose to use, because it offers a great deal more comparative richness.

The other problem with studies of global inequality is that half of it comes from a proxy measure of average income, per capita GDP, weighted by population to become national GDP. Analyzing how some national economies grow faster or slower than others is a fundamentally different inquiry than analyzing income inequality. Indeed, Firebaugh's argument is dependent on China's rapid growth, but the case is highly ambiguous due to its complicated mix of state and market mechanisms and the uniqueness of its size and history. Therefore, the inquiries should be dealt with separately rather than jointly. One line should try to understand variation in GDP, while another, in which my proposed study fits, should try to understand variation in national inequality. While the evidence for trends in global inequality is equivocal, "the recent trends in [national] income inequality are sobering. Since the early-mid 1980s inequality has risen in most countries, and in many cases sharply" (Cornia and Court 2001:1). What then has research into explaining variation in national inequality found?

Kuznets Curve and the Great U-Turn

One of the earliest arguments about national inequality came from Simon Kuznets (1955), who had found not a linear but an inverse quadratic relationship between economic development and inequality. As industrialization begins, the mass migration to cities from rural areas keeps the factory labor supply high, translating into lower wages, while the new opportunities for investment creates a class of capitalists with greater incomes than were possible under an agrarian system. This bifurcation between the haves and have-nots results in a sharp rise in national inequality.

In late industrialization, however, public education systems emerge, as well as other redistributive systems—social security, unemployment compensation, and other forms of state welfare—and there is consequently a decline in inequality (Milanovic 2011). Statistical analysis finds an inverted-U shaped relationship between development and inequality by introducing a quadratic term (Ahluwalia 1976; Nielsen and Alderson 1995). The high levels of inequality resulting from industrialization are thus only a temporary phase, according to the Kuznet's hypothesis.

Since the late 1970s, however, advanced industrial economies on the right of the Kuznet's curve have started undergoing further transformations that have led to a renewed rise in levels of inequality. Bennett Harrison and Barry Bluestone (1988) call this trend the "great U-turn." The authors argue that corporate and related state policy restructuring—deindustrial-ization, financialization, deregulation, deunionization—followed the economic stagnation of the 1970s, leading to greater profits for owners and investors and declining wages for the working class. Many countries are known to have experienced U-turns in the last several decades (Gottschalk and Smeeding 1997; Cornia and Court 2001). Combined with the Kuznet's curve, the great U-turn implies an up-down-up or S-shaped trajectory as a country moves from agricultural to industrial to late industrial to post-industrial development.

One of the major criticisms of Kuznet's hypothesis is that it assumes historical and regional differences are simply paths along the same line of development. That is, all the advanced countries are Western European, or its offshoots (with the exception of Japan), while countries in Latin America are mostly middle income, and countries in sub-Saharan Africa are mostly low income countries. If dummies for regions of the world are introduced in models, the quadratic relationship between economic development and national inequality disappears, at least in one prominent but older database (Deninger and Squire 1998).

Another line of inquiry challenges the necessity of the curve's shape throughout economic development, even if it is a common occurrence. The East Asian countries Japan, South Korea, Taiwan, Hong Kong, and Singapore all underwent rapid industrialization and economic growth at some point in the post-WWII era but did not experience a substantial rise in national inequality; at certain points, it even declined (Stiglitz 1996). Even when it comes to great economic transformations, this argument suggests that inequality is not a necessary concomitant.

The direct determinants of income inequality have been contested in many strands of research, so let me now turn the review to more specific factors related to these debates rather than the overall historical and developmental trends. Though not perfectly, the lines of inquiry tend to follow similar theoretical frameworks for what has a major impact on national income inequality. I will therefore group these into four overriding categories: globalization, technology, domestic politics, and demographics. The frameworks are not always mutually exclusive.

Indeed, Gerhard Lenski (1966) developed a synthesized framework in which he argued that technology, primarily the mode of production, forms a foundation for the type of society and its level of inequality, such as agricultural or early industrial. From there, countries of the same type vary a great deal based on many other factors, such as politics and the environment. But Lenski wrote before the rise of neoliberalism, and today inequality has risen to new heights. Political factors have perhaps greater impact on inequality today as a result. After discussing other major frameworks for inequality, I contend that neoliberalism as an elite consensus may be a more important factor today.

Globalization

The precipitous rise of global economic and social integration in the last few decades has also been synchronous with rising levels of inequality in many countries. Globalization has therefore been a prime suspect in these "sobering trends" of income inequality. But how should we measure it? Globalization is by definition a global phenomenon, not limited to any one country. It is also not something that is limited to one dimension of analysis—the economy, the state, civil society—so it is difficult to capture. Furthermore, what distinguishes contemporary globalization is not just the extent of international activities, but their qualitatively novel structure (Robinson 2004). Thus, trying to measure globalization quantitatively is inherently challenging.

One popular perspective holds that globalization largely concerns increased flows—including those of money, capital, goods, and people—across formerly rigid national boundaries (Held et al. 1999). The consequences of these new flows are complicated and ambiguous since they occur in many different forms in many different spheres of life, from the economy to politics to culture. A contrary view maintains that globalization is actually a "contested phenomenon" in the sense that it is subject to competing centers of power and political projects (Sklair 1995, Robinson 2004). In this sense, it is really capitalist economic globalization that is most troubling, having escaped the nation-state system in which it was contained, and only this type of globalization is the source of increased inequality and economic insecurity around the world.

Researchers of inequality have most commonly used levels of foreign direct investment (FDI) as in indicator of global integration. Countries with greater FDI flows are in this way considered to be more deeply affected by the trend of globalization, especially as it relates to the economic domain, in which both income inequality and FDI reside. Another line of inquiry has looked into free trade versus protectionism. Countries with greater levels of international trade are considered more closely integrated into the global economy. Although both FDI and trade are intended to capture globalization, they represent very distinct phenomenon and are treated by the inequality literature separately. Consequently, I too will discuss each in turn.

Foreign direct investment

Studies by world-systems analysts have found that greater stocks of FDI are correlated with greater income inequality (Evans and Timberlake 1980; Nolan 1983; Bornschier and Chase-Dunn 1985). These scholars theorize that the core regions of the world use foreign investments to preserve the unequal division of wealth in the world, and foreign investments can also cause distortions in the development of the domestic labor structure. Tsai (1995) finds, on the contrary, that the relationship between FDI and inequality is spurious after controlling for Latin America and East Asia using dummy variables. Firebaugh (1992; 1996) further contends that 'money is money' and although foreign investment may not be as productive as domestic investment, it does not have any deleterious economic effects by itself—controlling for the overall level of investment makes the effect of FDI disappear.

More recent studies, working more from a globalization framework than a world-systems or dependency framework continue to find mixed results investigating FDI. Several of these find a positive relationship between FDI and inequality (Alderson and Nielsen 1999; Reuveny and Li 2003; Choi 2006). Eastern Europe since democratization also shows strong support for an increase in inequality being related to higher levels of FDI (Mahutga and Bandelj 2008; Bandelj and Mahutga 2010).

Other studies have more nuanced findings. Milanovic (2002) finds there is more inequality from FDI for low-income countries, but lower inequality from FDI for high-income countries, which he suggests may indicate that globalization will make inequality worse before it makes it better. Another study (Wu & Hsu 2012) finds that FDI increases inequality among countries with low absorptive capacity but makes no change among countries with high absorptive capacity, which the authors define as "a host country's ability to absorb and adopt new incoming technology from a foreign country," which includes among other things the development of human capital, financial markets, and the provision of economic infrastructure (2184). There remains no consensus on FDI, but enough insight to continue investigating it.

Trade

The Heckscher-Ohlin model of international trade theorizes that countries' economies will tend to export goods that utilize factors in which they are abundant and import goods that utilize factors in which they are scarce. Stolper and Samuelson (1941) extended this model to make the prediction that increasing international trade would lead to greater inequality among developed countries, since they are abundant in skilled labor and capital, while it would lead to decreasing inequality in developing countries, since they are abundant in unskilled labor and scarce in capital.

The model does not appear to explain universal trends in inequality, however. While inequality has risen in many advanced industrial economies, many developing countries also saw a rise in inequality, contrary to what the model predicted (Harrison and Hanson 1999; Goldberg and Pavcnik 2004; Topalova 2007). Several studies also did not find statistical associations; among developing countries (Edwards 1997) or in long-term effects (Richardson 1995). This led many economists to drop trade as a leading explanation of national inequality, but there has been a resurgence of interest lately using new theories and evidence (Harrison, McLaren, and McMillan 2010).

Skill-Biased Technological Change

The information technology (IT) revolution ushered in a new era of economic production. Unlike manufacturing, IT places a premium on skills, which increase in demand as the economy incorporates technology, especially computers, into more and more facets of commercial as well as non-commercial operation. The rise of skill-biased technology change (SBTC) has therefore been a major explanation for the rising levels of national inequality, especially in the wealthier regions of the world where technology has made its deepest impressions.

Many studies have found this relationship between SBTC and rising inequality in terms of timing and correlation (Berman, Bound, and Machin 1998; Machin and Reenen 1998; Feenstra and Hanson 1999; Acemoglu 2000), wage differences and employment among occupational groups and skill-intensive sectors (Bartel and Lichtenberg 1987; Katz and Murphy 1992; Juhn, Murphy, and Pierce 1993; Autor, Katz, and Krueger 1998; Mortensen and Pissarides 1999; Krusell et al. 2000), and a hollowing out of the middle of the income distribution from SBTC (Autor, Katz, and Kearney 2008).

Card and DiNardo (2002) criticize this line of research, arguing that it doesn't account for wage inequality stability during the 1990s when computing technology continued to advance, the closing of the gender gap in pay, and the persistence of the racial gap. Mediating factors that explain these non-market trends include the minimum wage (Card and DiNardo 2002) and the sharp decline in the power of organized labor (DiNardo, Fortin, and Lemieux 1995; Brandolini and Smeeding 2009).

Contrary to conventional wisdom, Acemoglu (1998) argues that technology is not inherently skill-biased, as many technologies historically have been designed for unskilled workers and thus skill-replacing rather than -biased. Recent technology has instead been intentionally designed to complement skills to take advantage of the large supply of college graduates. Whether or not technology is skill-biased, then, is a function education.

Domestic Political Structure

Aristotle believed that without economic equality, democracy could not possibly function in any meaningful way. Nineteenth Century South American revolutionary Simón Bolívar called this principle the "law of laws." But could democracy, or the lack thereof, in turn have an effect on economic inequality? Could the nature of the state reflect upon the state's intervention into the distribution of incomes?

Scholars have theorized that "democratic institutions are important because they give rise to organized political competition" (Bollen and Jackman 1985:439). In an undemocratic state, the elites in power can use public resources to further their own economic interests and benefit financially, at the expense of the have-nots (Key 1949). However, "when political participation is extended to a critical mass of citizens," there is a loss of this domination of the state and a subsequent decline in economic inequality (Simpson 1990:683). Democratic institutions thus make it less viable for any one special interest group to dominate state policy.

Empirical testing of these ideas has produced mixed results. Some studies do not find any statistically significant relationship between income inequality and the level of democracy (Jackman 1974; Bollen and Jackman 1985; Wagle 2009). Other studies confirm the expected hypothesis that greater democracy leads to lower inequality (Hewitt 1977; Muller 1985; Simpson 1990; Huber et al. 2006). One possible explanation of the conflicting results is that the relationship is non-linear, and thus will not be properly captured by linear regressions. Simpson (1990) finds an inverted U-shape curve in which mid-level democratic countries have higher inequality than low- and high-level democratic ones. According to this argument, “It takes time to build up democratic institutions and win rights” (689), and thus the reductions of class-conflict through democracy will not be seen until the later stages of democratization.

Other studies into domestic political factors have looked not at democratic functioning overall but at how much of an active role the state plays in welfare and redistribution directly. These studies have demonstrated a strong relationship between greater welfare spending, progressive taxation, and lower levels of inequality (Tsai 1995; Gottschalk and Smeeding 1997). Lee (2005) also finds an interaction effect between democracy and public sector size. A large public sector does not necessarily lead to greater redistribution. In the absence of democracy, a large public sector will instead lead to greater income inequality.

Lastly, another major line of research into domestic political forces has focused on the size and strength of organized labor. When workers have higher membership rates in unions, and when those unions have many workers to mobilize in collective bargaining, we would expect that wages will be higher for unionized workers and inequality will be lower (Belman and Heywood 1990; Card 1996). Western and Rosenfeld (2011) argue that there is also a general effect of unionization, as norms of equity spread and employers raise wages in fear of unionization. They show that for both men and women, these general effects benefit workers in unionized industries and sectors, even though not all of these workers are unionized.

Furthermore, the decline of unions in advanced economies has been part of the great U-turn, as employers chose cost-cutting strategies, such as use of part-time and temporary employment, over long-term investment (Harrison and Bluestone 1988) and as political coalitions among major industries that were relatively less hostile to labor broke down (Ferguson and Rogers 1986).

Demographics

The relationships between inequality and many seemingly disparate demographic factors—the rural-urban divide, the age structure, immigration, and education attainment—have a common thread. They all suggest that given a particular group's typical disenfranchisement and economic disadvantage, changes in the size or membership of these groups can lead to greater or lesser inequality.

The urban-rural divide has a close relationship with industrialization and development, as cities increasingly become the centers of economic production and wealth. Lipton (1977) calls the phenomenon of government policies discriminately favoring cities "urban bias." City dwellers and factory workers are much more likely to have higher wages than their agrarian counterparts, and much research into national inequality finds countries with greater proportions of the population in rural areas (Ahluwalia 1976; Simpson 1990), a higher percent of the labor force in agriculture (Crenshaw 1992; Nielsen and Alderson 1995), and a greater share of GDP in agriculture (Ahluwalia 1976) are more unequal overall.

Critical of this simple picture, however, Nielsen (1994) argues that the relationship has an important overlooked dimension that mediates the Kuznets curve. Sector dualism, or the absolute gap between the size of the agricultural labor force and its proportion of the GDP, is actually what leads to greater inequality, while the relative size of the agrarian population, after controlling for sector dualism, actually creates less inequality. In other words, sector dualism accounts for the gap in incomes between urban and rural (more inequality) and the lower income divergence within rural areas (less inequality).

Few cross-national studies of inequality control for the age structure of a country, but Bollen and Jackman (1985) found that countries with larger youth populations and larger elderly populations tend to have more inequality because these age groups either have lower or no income (and live as dependents).

Migration rates are theorized to have an effect on national income inequality, but the effects are conditional. Immigration can increase the population size of lower, middle, or upper income groups, which might increase or decrease inequality, while emigration can decrease the population size of those groups, which might again increase or decrease inequality. Immigration might also increase competition and thus lower wage levels, as many opponents fear. Card (2009) finds evidence in the U.S. that immigrants have increased inequality somewhat by filling out lower income groups and through wage competition, though to a lesser extent for the latter since immigrants and natives do not often compete for the same jobs. Davies and Wooton (1992) find evidence of inconsistent effects among developed countries, and brain drains among developing countries actually leading to lower inequality.

Education can play an important role in the empowerment and enfranchisement of any group. Outside of its role in the skill premium, increasing education levels are generally believed to decrease inequality by helping the poor to more effectively realize their economic and political rights. Higher average educational attainment (Ahluwalia 1976; Lam and Levison 1992; Gregorio and Lee 2002) and more equally distributed education (Lam and Levison 1992; Gregorio and Lee 2002) have been shown to lead to lower national income inequality.

Neoliberalism

> For many events, roughly 80% of the effects come from 20% of the causes.
> —Vilfredo Pareto

Although these various strains of literature have taught us a great deal about the nature of inequality, they may not be adequate to properly explain what has been happening around the world in the last few decades. To do so requires a deeper consideration of how political economy works, specifically by investigating the power elite and how their decisions change over time. A major weakness of past research is that it can point to many proximate factors related to rising inequality today but cannot uncover an ultimate explanation. Such an explanation is critical for the long-term institutional reform and systemic change necessary to minimize inequality.

Trends like economic globalization are no accident and not simply a result of technological or social progress. The technology for globalization has largely existed since long before the 1970s. Yet, it was only after elites started to abandon Keynesianism that economic globalization as we know it began accelerating, not to mention other domestic trends such as financialization, tax reform, and privatization. Globalization is therefore only an intermediary factor, while neoliberalism is the underlying cause of inequality. Indeed, undoing globalization would be problematic, but a new elite consensus could form much more easily, and many practical transformations of political economy could follow, affecting the nature of both globalization itself and inequality.

Furthermore, many arguments about globalization and technology take a great deal for granted. Those both critical and supportive of globalization assume that it must be based on market logic and predominantly involve economic integration. Divergent expectations then result from divergent views of capitalism—either positive or negative. But the nature of capitalism has changed over time, and varies a great deal from country to country, responding to the preferences of elites and other historical and cultural factors. How globalization affects inequality is thus contingent on neoliberalism and not universal.

The same would apply to technology and how it is implemented. Those wary of technology believe it will be implemented to replace low-skilled workers and thus increase inequality. So far, that has largely been the case, but in a different institutional context than neoliberalism, technology might instead be incorporated in ways that do not affect inequality or might even lessen inequality. This is what proponents of technology often contend will happen.

Indeed, the neoliberal ideology, rather than seeing inequality as a problem, applauds it as beneficial motivator for economic and entrepreneurial activity. Only inequality that results from intervention in the free market should be eliminated, while the rest, however high, is considered perfectly legitimate. This was not the view of inequality under Keynesianism. In a less market-oriented political economy, it seems unlikely that globalization and technology would have generated more inequality, and may have helped generate less. I will return to these arguments throughout the dissertation. In the sections that follow, I explain my research methodology, as well as the research findings, that help demonstrate this case.

Three Research Components

The basic research question I address with this dissertation is how neoliberal institutions and policies affect the level of household income inequality within and between countries. The three empirical chapters focus on three aspects of this question: 1) the operationalization of neoliberalism, 2) its relationship with inequality, and 3) the contingency effects of neoliberalism on other sources of inequality. Though they can stand alone as research studies, each develops some of the groundwork for the next chapter, and each takes the work of the previous chapter further. In this section, I outline the basic reasoning of the three research designs, as well as how they collectively contribute to answering my research question.

I argue in the first research chapter that the existence of neoliberalism has been hidden by focusing on more benign or inevitable phenomenon like globalization and economic modernization, or by a focus on ideology rather than on institutions of power. Neoliberalism, however, is inherently political. The increased economic flows *per se*—to say nothing of cultural and migration flows—are much less of a political issue than the global economic regime, impressed upon the world by the United States and other wealthy powers, that is so heavily market-oriented compared to the prosperous decades after WWII. In other words, only neoliberal globalization is at stake. But, this type of globalization is part of a broader neoliberal project and is often conflated with the more generic—and much older—process of worldwide social integration. Consequently, I find that the empirical work of past studies is insufficient for the purposes of this research.

Neoliberalism should be viewed as an elite consensus and social project,[ix] one that has both global and domestic aspects and emerged in the economic stagnation of the 1970s.

Because the neoliberal consensus involves many distinct strategies for the revitalization of capital accumulation and returns on investment, I use a multidimensional approach. This means that instead of collapsing measures for various dimensions of the neoliberal project into a single metric, there are different measures for each discernible dimension. For instance, the globalization of investment, a key strategy of neoliberalism, would have its own measure, and deindustrialization and privatization would likewise have their own measures. Much of the data for these dimensions are publically available through the World Bank.

For the economic liberalism that has been a major foundation of neoliberalism, I instead turn to the Economic Freedom for the World (EFW) index, compiled by the conservative Fraser Institute. Their index has five major components, each with many different indicators as well (totaling 42). These components include government spending and taxation, business-friendly legal systems and the rule of law, monetary stability, open international trade, and the regulation of business, finance, and labor. However, the organization of the index is ideologically-driven and somewhat arbitrary. I therefore use factor analysis to create a more logical and empirically consistent organization of its 42 separate indicators.

[ix] A social project is typically defined as a mobilization of resources, ideas, and energy to the achievement of a particular goal, usually social reform of some kind. In the case of neoliberalism, the project came about as a consensus among corporate elites around the world, and has helped reshape many aspects of society, including the economy and politics in many, if not all, countries.

Factor analysis is a technique designed to extract latent or underlying factors from a large set of variables using their inter-correlations. It was perhaps most famously used to uncover the Big Five personality traits from multifaceted psychological surveys, such as the introversion-extraversion factor, the agreeableness factor, and the neuroticism factor. I extracted four factors from the EFW index, which include a country's business rights, monetary stability, foreign economic attractiveness, and (lack of) government intervention and labor rights. Interestingly, while the first three factors have moderate, positive correlations—meaning countries that score highly on one also tend to score highly on the other two—the fourth factor related to government and labor has a slight negative correlation with the first three.

I found that this is most likely due to the pattern and effects of economic development. More developed countries tend to have high scores in the first three areas but relatively large, interventionist states and well-protected labor rights (meaning a low score in the fourth area). Developing countries, on the other hand, tend to have small states (a high score), but have less of a preference for business rights, weaker monetary stability, and less attractiveness to foreign investors (low scores). While the proponents of EF argue this is simply due to the inconsistencies of "voter preferences," those who study development comparatively, have long argued that large, interventionist states are necessary for economic prosperity.[x]

Using these four emergent factors, I next compare them to measurements for some of the other strategies of neoliberalism. These measures help to round out the

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[x] See, for instance, the World Bank's World Development Report 1997, *The State in a Changing World*.

economic liberalism factors and capture some of the other important dimensions of the neoliberal project that the proponents of “economic freedom” overlook. I examine a correlation matrix between these extra variables and the four factors. This helps establish how well the variables work together as part of a deeper, latent phenomenon like neoliberalism. I would therefore expect to see modest intercorrelation. I would not expect to see too strong an intercorrelation, however, because the partial independence of these various measures supports the continued separation of these dimensions in future analysis.

In the second research chapter, I begin to analyze the statistical relationship between my independent variable neoliberalism and my dependent variable inequality. For neoliberalism, I use the multiple dimensions I explored in the first research chapter. For inequality, I use data from the Standardized World Income Inequality Database (SWIID). The available international data is adequate but not ideal for comparison, but SWIID is the best analyzable data in the world today, at least among those that covers a wide berth of countries and years.

The data set is longitudinal,[xi] which means there are many yearly data points from the same countries over time. I therefore use fixed-effects (FE) regression models, a very popular model for longitudinal data. However, I employ both a time-invariant model (differences between countries) and a country-invariant model (differences within

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[xi] The data is also unbalanced, which means that some countries have only a few years of measurements, while others, like the United States, have measurements for every year in the sample. This is less of a problem for longitudinal data, in which there are many years of data coverage, than it is for panel data, in which there are only a few points of measurement.

countries across time). Past research I argue has preferred only the latter model, but this leaves out variation between countries that is equally instructive, if not more so. Indeed, I note below that about four-fifths of variation in inequality lies between countries.

Some studies include random effects (RE) and generalized estimating equation (GEE) models, which preserve some between-country variation. This allows for the testing of predictors that do not vary, or vary little, within countries. The problem, however, is that RE and GEE models preserve an *unknown* amount of between-country variation, so interpretation is very difficult, especially when there are differences from comparable FE models. The two FE models I use provide a much purer and easy to interpret comparison, separately preserving both kinds of variation. The between country model evaluates deep institutional and cultural differences between countries, while the other model evaluates more superficial but easier-to-change policy shifts and trends within countries at various points in time.

Additionally, I incorporate many control variables that past work has found related to inequality. These include measures for school enrollment, employment levels, the age distribution (children and the elderly are often not income earners), population size, the region of the world (Europe, Latin America and the Caribbean, etc.), and the level of development. The last one includes a linear and quadratic term to model the Kuznets curve, defined in the previous chapter.

Using the dual-FE model approach and these control variables, I expect to find that the various dimensions of neoliberalism will have a positive and significant association with greater inequality. There are three major reasons for this expectation. First, since capitalism is a competitive system (especially for labor), incomes should become more dispersed as people win and lose in competition. Second, neoliberalism is much more beneficial to wealthier people whose income is dependent on capital gains given its focus on improving returns on investment—and conversely is harmful to labor because ensuring those returns most often means minimizing labor costs. Third, given that neoliberalism is an elite consensus without any public participation, these special interests would work to shape neoliberalism so as to benefit elites at the expense of the majority and ensure even greater elite domination.

In the second research chapter, I also explore some non-linear effects of neoliberalism. Such exploration is hardly uncommon in cross-national research, given the complexity of societies as large as the typical nation-state. I focus on two types of potential complexity. First, I explore the interaction between a country's level of economic development and neoliberalism. The motivation for this is to test if either more or less developed countries experience sharper neoliberal effects on inequality. Second, I explore quadratic effects for the dimensions of neoliberalism. The motivation here is to test if the effects on inequality are constant or become greater at higher levels of neoliberalism, or if they reverse at very low levels of neoliberalism where there is typically higher state corruption and dysfunction.

The third research chapter begins with the same basic linear model as the previous chapter. However, instead of using extra terms to explore the nuances of neoliberalism, I use them to create a kind of competitive testing with alternative arguments about inequality. The models in this chapter include interaction terms between the neoliberal dimensions and these alternatives. This basically asks if it is only at high levels of neoliberalism—like those seen in more recent years—that these alternatives become associated with greater inequality. Conversely, at average or below average levels of neoliberalism, do these alternatives actually become associated with less inequality?

Inside and outside scholarly work, rising inequality is often blamed on benign, progressive social trends like globalization and technological advancement, for which no one is to blame and against which only minor policy reforms and measures can be effective, rather than systemic change. Or, a list of factors is blamed with no underlying narrative and therefore no single way to address them. I argue that neoliberalism offers a more constructive and accurate explanation, because it is not benign or progressive and offers a desperately needed narrative that accounts for so many other inegalitarian trends.

The interaction terms in this chapter will elicit whether neoliberalism offers such an underlying explanation. In other words, I will examine if the effects of the alternative explanations on inequality are contingent on above average levels of neoliberalism. I will also assess if trends like globalization and technology could have been helpful in lowering inequality, if only countries' levels of economic liberalism had stayed at or declined from their 1970 levels.

In sum, the first research chapter finds a way to measure what is meant by neoliberalism using several related dimensions. The second chapter sees if these dimensions show the expected relationships with inequality, and it explores these relationships for various nuances that provide a more accurate but somewhat more complicated picture. The third and final research chapter then tests whether neoliberalism offers a better and more fundamental explanation of rising inequality than the popular but arguably inadequate alternatives.

Methological Issues

In the following sections, I discuss several methodological issues worth bearing in mind when interpreting the research findings. These include the unit of analysis—nation-states—the measurement of income, the measurement of inequality, and the limitations of the research. I have taken steps to address certain issues, while some cannot be addressed with presently available data, and others are left for future research.

Unit of Analysis

Many contemporary arguments about global political economy have tried to cast doubt about the utility of the nation-state as a unit of analysis. These arguments explicate various theoretical justifications for eliminating countries in favor of one or another kind of single global system. They have provided little if any compelling evidence of these global systems, but the theories were very popular during the 1990s and remain so today, with some qualifications. Since these ideas could challenge this research, this section outlines some of the flaws with globalization theory and justifies continued use of nation-state frameworks.

According to Immanuel Wallerstein, "the fundamental error of ahistorical social science is to reify parts of the totality into such units and then to compare these reified structures." He goes on to say that "in the nineteenth and twentieth centuries there has been only one world-system in existence, the capitalist world-economy" (1974:389-90). Researchers who use nation-state analysis, according to Wallerstein, forget that these institutions are historically limited in prominence, and developed almost entirely to satisfy the needs of the capitalist world-economy.

Susan Strange (1996) argues in a similar vein that the authority of the nation-state has been in retreat for several decades. Its capacity to fulfill its societal responsibilities has significantly eroded, which includes territorial defense, stabilizing the national currency, providing a safety net for the less fortunate, collecting taxes, controlling the balance of trade, building infrastructure, keeping the country globally competitive, and maintaining order on the home front, among several other functions of state. The nation-state, according to Strange, "is becoming, once more and as in the past, just one source of authority among several, with limited powers and resources." (73).

Leslie Sklair also claims that a conceptual confusion and general inconclusiveness results from the use of nation-state statistics. He argues that the global capitalist system, led by the transnational capitalist class who operate the largest transnational corporations and run transnational organizations like the World Bank and IMF, has become more powerful than the nation-state system. Thus, it subverts the traditional principle of Westphalian sovereignty. Regarding inequality specifically, Sklair writes, "It is not a geographical accident of birth that determines whether an individual or group is going to be rich or poor, but a question of class location" (1995:23).

Although transnational actors have risen in prominence throughout the last few decades, it is important to remember that the nation-state remains the dominant political actor in the world, which even Strange acknowledges. The United Nations, for instance, is little more than an international forum for making lofty declarations. Without any enforcement mechanisms, countries are free to cooperate to the extent their perceived national interests allow.

To be sure, international actors have had increasing influence for several decades, but many of these act as representatives of nation-states, whether formally or informally, and do not constitute much of a global system that could actually challenge national sovereignty. “Strange's argument,” writes Robert Keohane in a review, “that nonstate actors are increasingly significant, echoes what many observers, including political scientists, have been saying for 25 years. It is unfortunate that she repeatedly writes as if political scientists were trapped in statecentric modes of thought and have failed to observe” this (1996:225).

Additionally, studies consistently find that inequality between countries is significantly more predictive of individual incomes than within-country inequality, suggesting the “geographical accident” of where one is born still has a profound impact on one’s material wellbeing (Berry, Bourguignon, and Morrisson 1983; Korzeniewicz and Moran 1997). The nature of relative poverty also fails to uphold Sklair’s bold claim about global class position. The poor in America are well-off by world standards; but relative to the national wealth of the country in which they live, they are very unfortunate. Their apparently prosperous class position in the global system means little because they live almost exclusively within nation-state boundaries.

Globalization is, nevertheless, important to this study. It is not strictly by internal mechanisms that some countries, particularly less developed ones, come to have more economic liberalism than others, but as a response to international pressures. Such mechanisms, however, primarily target and affect nation-states. They are also designed and implemented by the most powerful states, like the U.S., according to their perceived national interests. The theoretical distinction between globalization and neoliberalism is a question I return to below in the research design sections and the three research chapters. However, there is little reason that globalization should challenge the utility of cross-national studies.

Measuring Income

Like many things we take for granted, income can be tricky to define. For this study, income is defined as the monetary value of the material earnings of a standardized social unit, the household, over an annual timeframe, that can then be exchanged for goods and services; more generally, it is a part of one's overall material welfare. Unfortunately for this study, there is no simple way to operationalize such a basic definition across different countries.

One attempt to form a universal consensus on income was made by the Canberra Group in 2001. They recommend summing cash wages and salaries, income from self-employment, property income and dividends, and any social assistance benefits, minus any expenses for rent and taxes, which essentially captures disposable income. This definition works best for developed countries, where there is a well-developed cash economy, but won't work nearly as well in developing countries, especially among the rural poor. For those who do not receive a cash wage, it is difficult to establish an income in monetary terms.

Deaton and Zaida (2002), two World Bank economists, offer recommendations for using consumption as a proxy for income. They recommend summing food consumption, including market-bought food, self-produced food (using local prices to estimate the monetary value), and food received as a gift or payment; non-food consumption, including clothing and house wares, health expenses, education expenses, and transportation costs; any durable goods, such as bricks or jewelry; and subtracting housing rent or utility costs, including imputed rents for unowned dwellings.

There are still many difficulties, aside from definition, in establishing income measurements among the most underprivileged groups of the world. Studying economic wellbeing in East Africa, Homewood and Kristjanson (2008) write:

> [Livelihood] change among pastoralist communities is a difficult process to analyze, not least because of the complexities of establishing a representative sample in areas where there is no realistic sampling frame, where households are scattered, remote, and hard to access, where agropastoralist households may alternatively be defined by occupation or by ethnicity, and where there is immense variability within and between households, and within and between years in terms of their composition, activities, and strategies. (45)

The fact that these measurement difficulties are so closely associated with the national income and level of economic development is a fundamental and persistent problem with all income data. In other words, the less developed the country, the less reliable the data.

Despite many attempts at establishing universal standards, national statistics bureaus still vary widely in what gets counted as income or not. There are also issues of transparency. If the statistics bureau does not properly document their methods, outsiders will have no way to determine what their exact calculations were. This, of course, is often a problem where government budgets are less robust and the necessary expertise cannot be assembled.

In addition, not all segments of the population will ever be sampled equally. The disenfranchised will be harder to find and survey systematically, while those with very large incomes, though hugely important to the extent of income inequality, will be rare in the population and thus unlikely to be ever be sampled in anything but a full census. This is particularly troublesome because the greatest gains in income over the past few decades have been seen at the very top, among the richest 1 percent, .1 percent, and .01 percent increasingly.

The household is often taken to be the social unit that earns income, but not always. Sometimes only tax-paying individuals or employed people are included as income-earners. Even if the household is the unit of analysis, though, they vary by size and composition cross-culturally, and household structure can and does evolve over time. Many statistics bureaus prefer then to weight the income by the size of the household, and the number of dependents, to account for this, but not all of them do. Again, it is typically the better funded bureaus in wealthier countries that make these adjustments.

Given that there is such tremendous variation in definitions, units of analysis, methodology, and overall data quality, any study that proposes to do a cross-national comparison must make a tradeoff between the sample size and the meaningful comparability that can be made. Since I propose here to include as many countries as possible, I am working at the limits of comparability for existing data. However, Frederick Solt has developed a standardization procedure that accounts for differing income data and increases comparability to adequate levels (2009).

Solt uses the Luxembourg Income Study (LIS) as the standard, which defines income similarly to the Canberra Group but does not subtract rents. It measures not disposable income, then, but net income. The LIS data is considered the best quality cross-national data in the world, but only covers about 30 countries (more have recently been added). With the standardization procedure, that increases to about 140, which is why I chose to use it for this dissertation. I discuss the details of this procedure in later chapters. However, standardization is only a practical fix, and the inconsistencies across countries will always be worth bearing in mind.

Measuring Inequality

Inequality is generally defined as the extent of deviation from perfect equality, or everyone in a society having exactly the same income. So, in other words, inequality is a measure of dispersion or variation in the distribution of incomes. One might use range or standard deviation, as is commonly used in descriptive statistics, but these violate widely held assumptions about the nature of inequality.

What are these assumptions? They have to do with comparing multiple populations or the same population over time. The assumptions address what specific changes in the distribution of income should constitute an increase in inequality, a decrease, or no change at all. Some measures of inequality use different assumptions than others, but the available statistics internationally typically use what are called Gini coefficients. I outline the assumptions behind Gini calculations to aid interpretation of this dissertation's dependent variable. From this outline, I also recommend potential future research that broadens these assumptions.

One assumption addresses a shifting distribution. This is when a constant amount is hypothetically added to everyone's income, causing the income curve to shift its place on the number line, but not change scale or shape. Most analysts agree that inequality should decrease if the same amount is added, and inequality should increase if the same amount is subtracted. For instance, if everyone gained $10,000 to their income, this would be hugely significant for the poor while virtually unnoticeable for the rich. The opposite would occur if everyone lost $10,000, devastating the poor but again having little effect on the rich.

Amartya Sen (1973) proposed what he calls a welfare function, which follows a different logic. This involves taking any measure of inequality, reversing the scale, and multiplying it by the average income. This creates a measure of welfare that increases through an increase in average income and/or a decrease in inequality. So, if $10,000 was added to everyone's income, this would greatly increase welfare, while a $10,000 dollar reduction would greatly decrease welfare. However, this figure is no longer strictly measuring inequality, so the research focus would need to change before it could be used.

Another possible change of importance is a scale shift, in which everyone's income is multiplied by a constant factor. For instance, if everyone made four times as much money, the income curve would not simply shift in one direction but become stretched out. Most agree that a scale shift should not affect inequality, since the income ratios will not change at all. Indeed, all the major measures of inequality used today are calculated from income ratios.

Partly this is defended because the measure of inequality should not depend on units (Allison 1978). Japan should not be said to have greater inequality than the U.S., for example, just because there are over 70 yen to the dollar. However, if we convert incomes to the same currency, adjusted for inflation, the factor increases can still be conceived of as increases in inequality, contradicting the scale shift assumption. This concept is known as absolute inequality, as opposed to the relative inequality that results from comparing income ratios. Existing measures therefore focus solely on relative inequality.

But, what we learn from one might not be what we learn from the other. For example, if in a certain company bonuses were given out according to 10% of one's current wage or salary, the ratios would not change, but the income gaps are magnified and not without meaningful implications (cf. Kolm 1976). Absolute inequality is widely ignored because it is almost always increasing. But, does that not say something important about capitalism? Future research might consider analyzing trends in absolute, not just relative, inequality. To do so, new measurements would need to be developed on different assumptions.

Another assumption behind existing inequality measures is anonymity (Fossett and South 1983). If two income earners switch places, all inequality measures used today would show no difference. Hypothetically, if these earners switching places were, say, of different occupations, races, ethnicities, or genders, does this really mean that social inequality has not changed? The inequality examined here is strictly economic inequality. Research with a different focus would be better served by examining income gaps by race, gender, and so forth, to keep a clearer separation of concepts.

Population independence is yet another assumption (Hao and Naiman 2010). It states that inequality should not change with population growth, as long as overall the distribution remains the same. Put simply, one person with a $10,000 income and one person with a $20,000 income should be no more or less unequal than five people with $10,000 incomes and five people with $20,000 incomes.

A researcher never deals with actual populations, though, only samples. So the assumption should definitely hold for calculating an inequality score. The inequality measure should not change if there was a sample of 5,000 households versus 10,000 households. However, inequality data that comes from smaller samples will tend to have higher variability than data from larger samples. Population size may need to be taken into account to adjust for this statistical heteroskedasticity, which violates an assumption of regression analysis.

One last assumption has to do with specific shape-changes to the income distribution. It is referred to as the Pigou-Dalton principle. In its "weak" form, it states that downward transfers of income should never increase inequality, and in its "strong" form it states that downward transfers should always decrease inequality. So, if high-income households saw a $5,000 decline in income from year to year, while middle-income households saw a $5,000 rise, this would be considered a downward shift. Paul Allison argues the principle has strong intuitive appeal, but does not hold with certain measures of inequality (1978:868). It does, however, hold in its strong form for Gini coefficients.

The Pigou-Dalton principle is only relevant, however, for single, summary measures of inequality. Without making as many assumptions, researchers can look at income shares of various percentiles to see how these chares differ. In fact, Shorrocks and Slottje (2002) suggest that inequality can be broken down into three basic dimensions. These include the income share of the highest incomes (say, one percent, for simplicity's sake), the income share of the poor (the bottom 10-20 percent), and some kind of summary measure of inequality for the remaining middle of the distribution.

While Shorrocks and Slottje show the empirical justification for these three dimensions, there are some obvious theoretical ones as well. The mechanisms that ensure the rich stay rich are not always the same as the ones that keep the poor trapped in a vicious circle. The third dimension also helps capture inequality between the working class and middle class, blue and white collar workers, and skilled and unskilled laborers. As cross-national statistics improve in quality and availability, measures for these three dimensions may become more available for future research. For now, I focus on the most widely used Gini coefficient measurements, which satisfy all the assumptions outlined above.

Limitations

The results of cross-national comparisons are typically somewhat tentative. Firstly, given the comparability issues mentioned above, statistical confidence is not as strong as it could be. Its strength is rather in its scope of applicability—specifically, the whole world over many decades. Second, the data is observational rather than experimental. Even with many statistical controls, the possibility remains that unmeasured factors or factors that do not vary in the sample play an important intervening role in the relationship in question. This is especially true for units of analysis as complex as nation-states.

What these limitations mean is that the dissertation as a whole is more exploratory than it may appear to those uninitiated in cross-national research. The old aphorism that correlation is not necessarily causation still applies. In the case of my study, political economy is not a variable that can easily be manipulated to actually change levels of inequality. As Joseph Stiglitz has often pointed out in criticism of neoliberalism, general solutions must be pragmatically adapted to country-specific conditions. My study is meant to provide some insight into a general way forward, while strategies will necessarily vary in different national contexts.

As data improves over time, so too will our understanding of inequality, provided our minds our open to the arguments of this dissertation. An externally imposed limitation of this research is that the existence of a self-serving power elite that rules the country is literally unthinkable to many people. They will never accept the theoretical framework used here no matter what evidence was available, and Noam Chomsky and G. William Domhoff, just to name two invaluable scholars, have accumulated more than enough over the years. The failure to accept how political economy really works is a major source of bias in past research—how they explain inequality and what to do about it—and something I hope this research begins to rectify.

The scope of this study is limited to intra-national inequality, and does not investigate international inequality, which is much larger in scale. International inequality is essentially disparities in levels of national development. The mechanisms that determine each kind of inequality have some overlap, relating to international political economy, but are largely distinct. It makes little theoretical sense, I argued in the previous chapter, to analyze them simultaneously, or to combine them in some form of "global" inequality measure. Nonetheless, international inequality has a substantial impact on individual incomes around the world.

Lastly, this study only looks at one dimension of material welfare as expressed in monetary terms, income. I do not examine disparities of wealth, another dimension of material welfare, one with probably greater social implications than annual income. I also do not distinguish between people by their gender, racial-ethnic, or class identifications, treating them all anonymously. These are extremely important dimensions of social inequality, but they are beyond the scope of my study. I also do not investigate non-material forms of well-being such as happiness or contentment, something that is growing in popularity for cross-national research.

Indeed, freedom itself is widely considered to be important part of the human condition in its own right. There is no need to take the Fraser index seriously in this regard (cf. Sen 1999). As this research will show, it is a better measure of economic oppression than economic freedom. On the contrary, the freedom of the working class, and much of the middle class, is undoubtedly dependent on a government and labor organizations that intervene in the market economy and constrain the power of the wealthy.

Martin Luther King, Jr. was assassinated in the middle of a Poor People's Campaign to create an Economic Bill of Rights that guaranteed decent housing and a basic income.[xii] "Freedom from want" was also one of Franklin Roosevelt's Four Freedoms articulated in his 1941 State of the Union address. Perhaps, once neoliberalism has been properly discredited, these ideas will once again gain popularity, and a true

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[xii] Interestingly, many neoliberal ideologues like Milton Friedman support a basic income. They are critical of government bureaucracy that tries to control consumer spending in the form of food stamps and housing vouchers, and see the basic income as a market solution to poverty. Naturally, they will never admit that the failure to provide a basic income for the poor represents a profound market failure that necessitates public intervention. Neither will they admit that creating a basic income would require substantial progressive taxation and a government bureaucracy similar in size to Social Security to accomplish. Furthermore, Friedman would ideally prefer a system of private charity to government-provided basic income (Rayack 1987:169).

index of economic freedom might be compiled. It would have to capture not only access to basic economic necessities but the capacity for people to influence important economic decisions. In this way, economic freedom is not much different than political freedom, both of which are seriously lacking in the 21st Century, in no small part due to the rise of neoliberalism.

Despite its limitations, the income inequality measure studied here is still an important indicator of societal well-being, and one that deserves more intellectual focus. The cross-national data could certainly use improvement, but there is still adequate comparability to draw meaningful conclusions. If anything, I think it likely that better data will strengthen the arguments of this dissertation because rising inequality has probably been understated in available data, and so too then has the effect of neoliberalism.

CHAPTER 4

QUANTIFYING NEOLIBERALISM

Shared Variation and Partial Independence among Several Dimensions

In the summer of 1981, a strike was called by the 13,000-member Professional Air Traffic Controllers Organization (PATCO). The new incumbent president, Ronald Reagan, referring to the act as a "peril to national safety," fired more than 11,000 highly-trained public sector workers after they refused to return to work within 48 hours of the president's warning. The dissolution of the PATCO strike would come to be symbolic of a new era of labor relations and business culture, which would later be christened neoliberalism.

Neoliberalism is commonly perceived to be a regime built on the revival of classical liberalism's free market principles. The "zapping" of labor was only one notorious feature of these decades—it was also characterized by organizational downsizing, the offshoring and outsourcing of middle class jobs, deregulation especially in finance, privatization and corporatization, and many other market-oriented transformations.

In order for quantitative research to begin exploring what these changes have meant for the country and the world, neoliberalism must be operationalized. In this paper, I discuss the competing ways in which this has been done, by both proponents and opponents of the new regime, and offer evidence as to how it might be done better in the future. I focus on an index of "economic freedom," as proponents from conservative think tanks call it, since it provides a great deal of cross-national and longitudinal data available to the wider public. However, I also supplement this with data from the World Bank and UNCTAD[xiii] to provide a broader perspective.

In the first section, I explain the origin and nature of neoliberalism as a political or social project. Then I discuss the theoretical and quantitative literatures that have focused on various aspects of neoliberalism. In the interest of providing guidance for future research on neoliberalism, I present empirical findings that examine the economic freedom (EF) index using factor analysis, as well as correlations with supplementary neoliberal indicators. I use this evidence to argue that quantitative research of neoliberalism can be enhanced by using the EF index, but must use it selectively and cautiously while necessarily supplementing it with outside data. Theoretically, I also argue that many previous studies have had either too narrow a focus or conflated neoliberalism with other, more apolitical social and economic phenomena.

The Rise of Neoliberalism

Donald J. Devine, Reagan's director of the Office of Personnel Management, would later note of the PATCO strike, "When the president said no ... American business leaders were given a lesson in managerial leadership that they could not and did not ignore. Many private sector executives have told me that they were able to cut the fat from their organizations and adopt more competitive work practices because of what the government did in those days" (Divine 1991:84). In 2003 Alan Greenspan, former Reagan-appointed Chairman of the Federal Reserve, recalled, "President Reagan prevailed, … but far more importantly his action gave weight to the legal right of private

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[xiii] United Nations Conference on Trade and Development

employers, previously not fully exercised, to use their own discretion to both hire and discharge workers" (Greenspan 2003).

The political project that favored the "legal rights of private employers" and helped elect Ronald Reagan had its first major achievement in striking down a bill to raise taxes two years earlier during the Carter administration. Contrary to popular belief, this right turn did not reflect the preferences of voters, who were if anything more liberal than ever. According to Thomas Ferguson and Joel Rogers, it instead reflected the changing preferences of the business elite—the major investors in both the economy and the political system—who sought to undo the New Deal and postwar system (1986).

Such a turn was made possible by the organizing and advocacy of many non-profit, pro-business think tanks and trade associations emerging throughout the 1970s, such as the Business Roundtable and the Heritage Foundation. The decade was a profitable time to organize because of economic decline, including stagnating growth, rising inflation, and greater unemployment. The "golden age of capitalism," the quarter century after WWII characterized by much higher growth, near-full employment, and the lowest level of income inequality in U.S. history, had come to an end. Most important of all, corporate profits and investment returns more generally had started to decline in the late 1960s, and declined still further in the following decade.

This "crisis of profitability" motivated a flood of corporate restructuring moves, which ended up squeezing the country (Harrison and Bluestone 1988). It also motivated a flood of government reform, including tax cuts greatest for corporations and the wealthy (Hacker 2010) and the deregulation of business and finance (Kleinknecht 2009). The neoliberal era increasingly catered to the needs of private investors at the expense of the wider population. The term “neoliberalism” was first used by Latin American critics opposed to the free market reforms that began with Pinochet’s dictatorship in Chile and later spread to many other countries in the region, but has since come to be used by many people around the world who question the benefits of public disenfranchisement.

To justify the neoliberal project to a skeptical public, a group of previously marginalized intellectuals following Milton Friedman and Freidrich Hayek suddenly found widespread popularity. They argued that “economic freedom” should be our highest priority, and fostering the market would bring many benefits, including greater efficiency and prosperity.

Neoliberalism is thus often viewed simply as an ideological shift, since the rhetoric is most visible. But the reason so many people suddenly became enamored with Friedman’s ideas was that they justified what was already underway. The corporate community, faced with a serious decline in profits, wanted to revitalize investment returns using strategies that were not compatible with the Keynesian intellectual climate of the so-called golden age.

Literature Review

Unfortunately for research, neoliberalism has been studied under many names. The literature on globalization, the Washington Consensus, dependency theory, and economic freedom all introduce overlapping concepts that capture what is discussed in this paper as neoliberalism. In this section, I first discuss what I mean by neoliberalism, then compare competing views of similar contemporary social trends, as well as review how they have been incorporated into past quantitative research. I conclude by highlighting what I think are the weaknesses of past research and how they can be rectified.

I argue we should view neoliberalism as a political project that emerged from the profit squeeze of the 1970s (Harrison and Bluestone 1988; Harvey 2005). It represents the corporate consensus about how to revitalize fallen profits and returns on investment, especially short-term rather than long-term gains, in the face of weakening economic growth.

The neoliberal project has involved many market-oriented strategies, including privatization, tax reform, financialization, cutting labor costs, greater international trade, and deregulation. Other strategies have included business subsidies, corporate restructuring (e.g., outsourcing), deindustrialization, and securing intellectual property.

A somewhat different conceptualization of contemporary political economy comes from the globalization literature. Many social scientists argue that globalization has eroded national sovereignty and the power of the nation-state actor in the face of rapidly expanding international institutions and social processes (Sklair 1995; Sassen 1996, 2006; Strange 1996; Held et al. 1999; Beck 2000; Robinson 2004; Scholte 2005). This occurs in many different spheres—political, cultural, social—but especially in the global economy. Economic globalization has led to more open international trade and investment and the rise of powerful transnational corporations, which together pressure countries to adopt further market-oriented reforms.

Within this formulation, much of what has been referred to here as neoliberalism is only discussed as a consequence or effect of economic globalization. But we should consider the reverse relationship. Economic globalization as we know it is instead part of a larger neoliberal project. Rhetorically, “globalization” inevitably carries the connotation of stemming from technological change or social progress, no matter how much theorists might try to distinguish it. Neoliberalism on the contrary is neither inevitable nor progressive. It would be more useful then to analyze these aspects of globalization alongside other, related neoliberal strategies, whether global, regional, or domestic.

Furthermore, the arguments about national sovereignty cannot be tested if the goals of the state are misunderstood, otherwise we might end up arguing states are powerless to achieve what they were never trying to achieve in the first place. Indeed, rather than being a sign of declining sovereignty, neoliberal globalization has actually been the preeminent agenda of powerful states in the past several decades. For instance, does the decline in the regulation of finance or corporate taxation mean states have a lower capacity to regulate or to tax? Or does it simply show that the state has responded to the changing preferences of the economic elite, which have always dominated the country’s political landscape?[xiv]

Apropos to dominating the political landscape, the “Washington Consensus” is another term used to describe the goals of the international community in the neoliberal era. Formulated by economist John Williams in a 1990 paper, the term refers to eight

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[xiv] Commenting on the Reagan administration, William Kleinknecht writes, “His long-running diatribe against the inefficiency of government became a self-fulfilling prophecy. In the years following his presidency, many government agencies were so denuded of resources that they became the caricatures of ineffectiveness that Reagan had drawn in so many of his stump speeches. The nation was left with an Internal Revenue Service that virtually stopped auditing tax returns, an Environmental Protection Agency that turned a blind eye to polluters, a Federal Trade Commission that never took action against trade abuses, and a Federal Communications Commission that turned over the public airwaves to corporations” (2009:72). Note that these voluntary executive decisions take place well before global capitalism is mounting any serious pressure against the nation-state.

areas of reform that developing countries were being pressured to adopt in the interest of fostering economic development. These included 1) fiscal discipline through public spending reduction and tax reform, 2) market-determined interest rates, 3) export-led growth, 4) trade liberalization, 5) liberalization of foreign direct investment, 6) privatization of state enterprises, 7) deregulation of business, finance, and labor, and 8) security of property rights.

Critics of the Washington Consensus emphasize the role of international institutions, especially the IMF (Stiglitz 2003), but Western-oriented elites in the Third World have had much to gain from adopting neoliberal reforms. Additionally, gaining control of parliamentary systems and domestic politics has been a vital agenda for elites in First World countries. Rather than its international focus however, the more prescient weakness of the Washington Consensus is its focus on policy reforms rather than the broader economic trends of neoliberalism, such as deindustrialization and corporate restructuring, which have had just as large an impact and are not simply a result of globalization.

The ideals represented in the Washington Consensus have also been contested by dependency theorists, who argue the world's wealthy core nations have exploited the peripheral countries of the world and caused widespread underdevelopment (Frank 1966; Amin 1976; Bornschier and Chase-Dunn 1985; Wallerstein 2004). Forcing the Third World to adopt the Washington Consensus while ignoring its prescriptions themselves, the First World has helped maintain its power and privilege behind a shield of seemingly legitimate principles.

Dependency theory has lost popularity since its conception, in part due to its lack of theoretical and rhetorical clarity. It also takes an oversimplified and unidimensional approach to development. For instance, in a widely-cited and influential article, Glenn Firebaugh (1999) claims that global inequality has fallen, contradicting the predictions of dependency theorists. Even though his evidence is circumstantial, without a more nuanced approach dependency theory is left in doubt. The study of neoliberalism may offer a better approach, because it does not assume a monolithic economic system, but a social project within a dynamic world.

Next, economic freedom, though rhetorically very similar to neoliberalism, is an abstract ideology that conservative economists have developed to defend the free market as the most efficient social system. The Heritage Foundation defines EF as "…the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state."

Their ideal country is one that has a small government, a business-friendly legal system, a stable monetary framework, open international trade, no labor organization, and little if any regulation of business or finance. Several conservative think tanks have assembled cross-national indexes to measure this ideal country—I return to these in the empirical literature.

Contrary to the perspective of EF, "actually existing neoliberalism" (Brenner and Theodore 2002) deviates systematically from the free market proscriptions of the Heritage Foundation and other think tanks. Indeed, in trying to quantify international trade openness as one component of EF, Gwartney and Lawson (2013) lament, “At the urging of protectionist critics and special-interest groups, virtually all countries adopt trade restrictions of various types.” While their ideal country would adopt no such restrictions, the special interests behind neoliberalism require a certain amount of state protection from competition to ensure adequate profits. While the ideology of EF overlaps with neoliberalism, the two are not one in the same.

It is not clear that such a “free market” is even possible (Harvey 2005), but those in power are less interested in the ideas—except insofar as they justify their policies to the public (Chomsky 1999)—and much more interested in upholding the interests of power and privilege, namely corporations. In other words, private profit requires a great deal of intervention in the free market, so we should not confuse one group’s ideal with the real world.[xv]

Unfortunately, even those critical of neoliberalism treat it as an ideology (Giroux 2004, Harvey 2005, Peck 2010) rather than a political project or social movement. But as Joseph Stiglitz—who has some firsthand experience in the Washington Consensus as a former World Bank Chief Economist—reminds us, “Neo-liberal market fundamentalism

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[xv] A good example can be seen with the Export-Import Bank of the United States (Ex-Im Bank). This agency provides loans to foreign importers so they can purchase American exports, effectively subsidizing large corporations like Boeing and Enron. Supporters of the Ex-Im Bank claim it helps create middle-class jobs for the country. In 2014 when the charter was due to expire, the Ex-Im Bank came under criticism from conservative Republicans and organizations like the Heritage Foundation for being involved in what they misleadingly called “crony capitalism.” However, the Ex-Im Bank “has long been supported by the establishment of both the Republican and Democratic parties,” and its charter was extended (MacEwan 2014). Debate will of course continue, but most politicians can eschew free market fundamentalism and appreciate the destructive nature of excessive competition, much as monopolists like J.P. Morgan learned amidst the widespread railroading bankruptcies of the late 19th Century (Perelman 2006).

was always a political doctrine serving certain interests" (2008). Moreover, "…critical engagements that remain abstract and idealist run the risk of playing the 'game' by exactly the same rules that help make neoliberal discourses so beguiling" (McCarthy and Prudham 2004).

> The corporate community went on the offensive in the 1970s, trying to transform the intellectual environment to justify lowering wages and taxes. Business poured money into a "conservative labyrinth" of think tanks, funded scores of "free enterprise" chairs, and sponsored numerous university lecture series and individual scholars' research. (Herman 1995:32)

I would argue that ideology is a *justification* for what we do, but it is not an *explanation* of the social orders we live in.

In sum, we should not theoretically reverse the relationship between neoliberalism and globalization or focus too much on policy at the expense of deeper social change. We must also recognize that neoliberalism is a complex, multidimensional phenomenon because of the many diverse strategies adopted to revitalize private investment. Lastly, we must be critical of neoliberalism to study it effectively, and not become too immersed in the rhetoric of ideologues at the expense of real world understanding.

Previous Empirical Work

Turning to empirical studies, arguably the most extensive data sources come from the proponents of economic freedom. Although the Heritage Foundation also compiles an index, the Fraser Institute's index has become the preferred one, in part because the Heritage index has been questioned for its lack of transparency (de Haan and Sturm 2000). Most studies use the Fraser data to try to establish the merits of EF. They examine its association with various positive outcomes, such as equality, development, and especially economic growth.[xvi]

Although there is overlap, neoliberalism is not the same as EF. And because of their ideological bias, few scholars find these studies illuminating unless they take the "economic freedom" of Milton Friedman seriously. Many of these studies, however, do look at more than just the single, summary score for EF, finding a more nuanced, multi-dimensional nature to the cross-national variation. In spite of the ideological connotation of the index, however, it does also provide a useful, public data source for countries all over the world, helping to minimize the regional and developed-country bias that plagues cross-national study.

Studies by world-systems and dependency theory analysts have used FDI as an indicator of dependency (Evans and Timberlake 1980; Nolan 1983; Bornschier and Chase-Dunn 1985). Other studies in this field have used a simple three-category classification of core, peripheral, and semi-peripheral countries to capture dependency (Chirot and Hall 1982). Although seeking to instead defend foreign involvement, studies on the effects of the Washington Consensus have also used a relatively unidimensional approach. Studies focus on the benefits of foreign aid, arguing it has worked for some countries though not for others with poor institutions (Burnside and Dollar 2000; Easterly 2005).

[xvi] For growth, see Gwartney, Lawson, and Holcombe (1999), de Haan and Sturm (2000), Carlsson and Lundström (2002), Bengoa and Sanchez-Robles (2003), Feld and Voigt (2003); inequality, see Berggren (1999), Scully (2002); literacy and life expectancy, see Esposto and Zaleski (1999); development, see Goldsmith (1997), Norton (1998); a less polluted environment, see Carlsson and Lundström (2001); and happiness or subjective well-being, see Gehring (2013), Rode (2013).

Another line of empirical study, working from a globalization framework, has also looked at the effects of FDI, interpreting it as the effect of economic globalization (Alderson and Nielsen 2002; Reuveny and Li 2003; Choi 2006; Bandelj and Mahutga 2010). In the interest of neoliberal scholars, these studies surpass dependency theorists and the Washington Consensus literature by introducing a multi-dimensional approach. In addition to FDI, they look at other factors such as welfare state retrenchment, privatization, and labor power. However, in part plagued by data limitations, some of these studies have had to focus on small groups of countries—OECD (Alderson and Nielsen 2002), Eastern Europe (Bandelj and Mahutga 2010)—which was not the case for the literature that relied on the EF index.

In sum, one weakness of the empirical literature is that scholars examine certain parts of neoliberalism without others, or in other words suffering from omitted variable bias. In some cases, this has meant investigating only one dimension of a multi-dimensional phenomenon. Another weakness has been that data limitations have often prevented a worldwide sample. This paper seeks to use the EF index to capture a broader sample of countries, but also includes measures of dimensions not captured by the index. In this way, it will combine the advantages of the index with the multi-dimensional approach of economic globalization to create an improved measurement of neoliberalism.

Methodology

In this section, I discuss the methods used to examine the dimensions of neoliberalism and how this might inform measurement. To begin, I use exploratory factor analysis on the EF index. Since the index uses somewhat arbitrary categorization and simple averaging techniques, I do this to extract several neoliberal factors based on observed variation rather than ideology. Additionally, some components of the EF index do not fit with my definition, which I recommend excluding. Lastly, I explore how the index components correlate with outside variables that I think are also important dimensions of neoliberalism.

It should be noted that lack of correlation with other variables does not necessarily invalidate any conceptual argument. It is already known that neoliberalism—or globalization or EF—is multi-dimensional. Shared variation simply indicates which variables can be statistically grouped together, possibly averaged together, or even used as proxies for one another if the correlations are sufficiently high. Indeed, the multivariate regression that many researchers rely on will generate biased estimates if predictor inter-correlation is too high. With any index, such as the one examined here, there are many strong correlations between components that prevent the inclusion of every single individual indicator in a regression model.

Factor analysis is designed to extract latent or underlying factors from a set of interrelated variables, such as the components one would use in an index. The implication is that each latent factor would explain a proportion of the variation in the observed variables, if such an underlying factor could be measured. But latent factors by definition cannot be observed directly.

It is a matter of discretion how one chooses to name and interpret these latent factors based on their association with measured variables. One looks for possible commonalities between the variables loading onto the same factor. Oppositely, one compares the common distinctions these variables have with those that do not load onto the given factor (Kim and Mueller 1978). It is typically a struggle to find any characteristics that satisfy both conditions well, and not surprising then that the names assigned to factors should always be taken *loosely*. But then, it should also not come as a surprise that giving a label to an unmeasurable factor would involve a certain amount of unreliability and subjectivity. I invite the reader to try to extract a more refined interpretation than mine from the factor analyses below.

The index presented here comes from the Fraser Institute, a conservative think tank which publishes data used widely by the EF literature. The index was first compiled in 2000, but the Fraser Institute compiled back data for 1970 – 1995 in five year increments. It contains 42 distinct variables, grouped into five major components. These components include:

1. Size of government—freedom declines with greater government consumption, transfers and subsidies, state enterprises and investment, and top marginal tax rates
2. Legal structure—freedom rises with greater judiciary independence, impartiality of the courts, protection of property rights, integrity of the legal system, legal enforcement of contracts; and freedom declines with greater military interference in the rule of law and regulatory restrictions on the sale of property
3. Sound money—freedom declines with greater inflation and restrictions on the ability to own foreign currency bank accounts
4. Trade—freedom declines with greater taxes on trade, tariff rates, non-tariff barriers to trade, costs of compliance with trade law, black-market exchange rates, restrictions on foreign ownership, and capital controls

5. Regulation of credit, labor, and business—freedom declines with greater state ownership of banks, interest rate controls, minimum wages, hiring and firing regulations and costs, centralized collective bargaining, conscriptions, price controls, administrative requirements, bureaucracy costs, licensing restrictions, and costs of tax compliance

For more detailed definitions of the Fraser Institute's index see "Appendix: Explanatory Notes and Data Sources" in their annual report (Gwartney et al. 2013).

The Fraser index in some ways, especially with its focus on the rule of law and low inflation among other subcomponents, provides a generous picture of EF. That is, stable political and economic systems are not a point of contention—the debate is about how to organize state intervention in the market, which may or may not lead to more stable outcomes. Including variables for military interference and inflation surely buffers the index with outcomes not strictly related to freedom. Consequently, the data analysis provides some insight into how this variation may be teased away from what remains more closely related to neoliberalism.

While some variables could be excluded, others I argue should be brought in, since the neoliberal project includes many goals. Captured in the index are the decline in taxation, privatization, more open trade, and deregulation, but we should also consider the following:

1. Offshoring of industry from the developed world to the developing world, not simply as a consequence of globalization or technological progress

2. Increased worker vulnerability, enlarging the “reserve army of labour,” as Marx put it, or in more modern terms, the “precariat”
3. Dependence on foreign credit, a basic method of pressuring Third World countries into adopting neoliberal reforms against the will of their domestic constituency
4. Privatization of social services, especially healthcare and education, two of the most fundamental functions of government spending on the public
5. Neoliberal regimes created through so-called free trade agreements, even though they will appear to foster free trade in some ways and protectionism in others

I gathered data from the World Bank to capture the first four dimensions, and data from UNCTAD for the fifth. I use the industrial value added as a percent of GDP to capture offshoring; part-time employment and long-term unemployment as measures of the precariat; FDI and usage of IMF credit as measures of dependence; the proportion of healthcare spending that is private and the percent of students in private secondary school as measures of social services privatization, and the cumulative number of bilateral trade agreements (BTAs) signed as a measure of neoliberal trade incorporation.

Findings

In this section, I discuss the main findings of the factor analysis and the correlations between the factors of EF and the other dimensions of neoliberalism. As with most cross-national statistics, between-country variation is substantially greater than within-country variation, so the factor loadings and correlations are more readily interpreted as following patterns between different countries.[xvii] From the Fraser index's original 42 indicators, four principal factors emerge[xviii] (Table 1).

Table 1. Factor Analysis Summaries

Extracted	Variance	Proportion	
Factor 1	10.243	.3800	
Factor 2	6.491	.2408	
Factor 3	6.309	.2341	
Factor 4	3.967	.1472	
Correlation	**Factor 1**	**Factor 2**	**Factor 3**
Factor 2	.3638		
Factor 3	.3474	.3185	
Factor 4	-.1373	-.0521	-.0698

[xvii] An analysis of variance shows that 60.96 percent of the Fraser index is accounted for by the country-mean model. Furthermore, the variation responsible for the underlying factors that emerge from the correlation matrix appears to be mostly from the between-country component as well. After centering the economic freedom scores on their respective country means, eliminating any between-country variation to the data, very little correlation remains. Factor analysis using only between-country variation also shows very similar results to the factor analysis presented in this paper. Tables are available on request.

[xviii]In the original, unrotated principal components analysis, six factors had eigenvalues larger than 1. However, much of the variation in factors five and six comes from military conscription (labor regulation VI), a clear theoretical and empirical outlier of dubious inclusion. In any case, they are relatively small factors, accounting for 5.45 and 4.06 percent of the variation respectively, so they were excluded from further analysis. Tables are available on request.

Economic Freedom Index

With so many variables, the factor analysis of the Fraser index is relatively complicated, but several patterns appear to emerge. The four-factor model of the Fraser index does not show too sharp a difference between the factor sizes, ranging from 14.7-38.0 percent of the total variation.[xix] The first three factors have moderate positive correlation ($r > .3$), which is expected of variables from the same index. I call these three factors together the primary liberalism axis.[xx] But the fourth and smallest factor, which includes variables related to the public sector and labor, has slight negative correlations ($r > -.15$) with the primary liberalism axis. In other words, the last factor provides something of a counter-current to the first three factors underlying the index.

Table 2 presents the component loadings for the four-factor model of the Fraser index.[xxi] The first factor is the largest (38.0 percent) and accounts for the most variable loadings. Most of the legal structures load[xxii] strongly onto this factor, ranging from impartial courts (.954) to the business cost of crime (.700). Notably, military interference

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[xix] Sums to greater than 100 percent due to overlapping explanatory power—shared variation—not rounding error.

[xx] When only a two-factor modeled is used, the first three factors, which have positive correlation, are collapsed into a single factor. The last factor remains largely unchanged.

[xxi] The method of rotation used in Table 2 relaxes the assumption of orthogonal factors. It is unrealistic to assume that dimensions of economic liberalism will not be correlated at least to some extent. Allowing for correlations between the factors helps clarify the underlying dimensions. Tables with orthogonal factors available on request.

[xxii] I am using the traditional rule-of-thumb that requires a loading coefficient to be .4000 or greater.

Table 2. Fraser Index Factor Analysis, Four Factors

Variable	#	Factor1	Factor2	Factor3	Factor4	Unique
Size of Government						
Government consumption	1a	**-0.4854**	*-0.2126*	*0.0885*	**0.4222**	0.4394
Transfers and subsidies	1b	*-0.2005*	*-0.2734*	*-0.0367*	**0.6925**	0.2913
Government enterprise/investment	1c	*-0.0244*	*0.2102*	*0.3310*	*-0.2828*	0.7134
Top marginal income tax	1di	*-0.3572*	*0.3402*	*-0.0733*	**0.6405**	0.3805
Income and payroll tax	1dii	*0.0882*	*0.0003*	*-0.0767*	**0.7691**	0.4099
Legal Structure						
Judicial independence	2a	**0.9284**	*-0.0776*	*0.0975*	*-0.0174*	0.1121
Impartial courts	2b	**0.9544**	*-0.0955*	*0.0757*	*0.0902*	0.1106
Protection of property rights	2c	**0.8343**	*0.0110*	*0.2292*	*-0.0432*	0.0970
Military interference (rule of law)	2d	*0.3788*	*0.3545*	*0.0772*	*-0.3201*	0.4384
Integrity of the legal system	2e	**0.7253**	*0.2069*	*-0.0677*	*-0.2463*	0.2477
Legal enforcement of contracts	2f	*0.3668*	**0.4540**	*-0.1612*	*-0.0488*	0.5914
Regulatory restrictions on property	2g	*0.0752*	**0.5723**	*-0.1078*	*0.2908*	0.6032
Reliability of police	2h	**0.7975**	*0.0662*	*0.0754*	*-0.0564*	0.2540
Business costs of crime	2i	**0.6996**	*0.1047*	*-0.0345*	*-0.0939*	0.4367

Table 2. (continued)

Variable	#	Factor1	Factor2	Factor3	Factor4	Unique
Sound Money						
Money growth	3a	*0.0254*	*-0.0556*	**0.7385**	*-0.0121*	0.4636
Standard deviation of inflation	3b	*-0.0358*	*-0.0212*	**0.7232**	*-0.1076*	0.4813
Inflation (most recent year)	3c	*0.1000*	*0.0502*	**0.6721**	*-0.0922*	0.4437
Owning foreign bank accounts	3d	*0.0567*	**0.7184**	*0.0519*	*-0.0186*	0.4204
Trade						
Trade tax revenue (% of trade)	4ai	*0.1660*	**0.4948**	*0.1765*	*-0.0308*	0.5560
Mean tariff rate	4aii	*0.0628*	**0.6695**	*0.2443*	*-0.0073*	0.3417
Standard deviation of tariff rates	4aiii	*-0.3811*	*0.2854*	*0.3677*	*0.0770*	0.7400
Non-tariff trade barriers	4bi	**0.4927**	*0.2130*	*0.2416*	*-0.0639*	0.4454
Trade compliance costs	4bii	*0.2849*	*0.1395*	**0.5185**	*-0.0777*	0.4340
Black market exchange rates	4c	*-0.0806*	*0.0308*	**0.6084**	*0.1360*	0.6369
Foreign investment restrictions	4di	**0.4000**	*0.0508*	*0.3912*	*0.1111*	0.5548
Capital controls	4dii	*-0.0574*	**0.6216**	*0.0984*	*0.0774*	0.5905
Freedom of foreigners to visit	4diii	*0.1000*	*0.3502*	*0.0027*	*-0.1743*	0.7995

Table 2. (continued)

Variable	#	Factor1	Factor2	Factor3	Factor4	Unique
Regulation						
Private ownership of banks	5ai	*0.0779*	**0.4558**	*-0.0045*	*-0.0250*	0.7596
Private sector credit	5aii	*0.0566*	*-0.0282*	*0.1318*	*0.0913*	0.9715
Interest rate controls/real rate	5aiii	*0.0542*	*-0.0141*	**0.6957**	*0.0890*	0.4954
Hiring regulations, minimum wage	5bi	**0.5461**	*-0.0662*	*-0.1691*	*0.3277*	0.6839
Hiring and firing regulations	5bii	*0.1273*	*0.0930*	*0.0308*	**0.6316**	0.5931
Centralized collective bargaining	5biii	*-0.1228*	*0.2652*	*0.1252*	**0.5941**	0.5660
Hours regulation	5biv	*0.2432*	*-0.2642*	*0.0543*	**0.5015**	0.6868
Worker dismissal costs	5bv	*0.2379*	*0.3654*	*0.0790*	*-0.1442*	0.6717
Military conscription	5bvi	*0.0946*	*-0.0228*	*0.0054*	*-0.0548*	0.9874
Administrative requirements	5ci	**0.6488**	*0.0339*	*-0.0112*	**0.5283**	0.3831
Bureaucracy costs	5cii	*-0.2940*	*-0.0092*	*-0.0533*	*0.0828*	0.8833
Starting a business	5ciii	*0.1430*	*0.3079*	**0.4470**	*0.0362*	0.5244
Extra payments/bribes/favoritism	5civ	**0.8225**	*0.2032*	*-0.0158*	*-0.1203*	0.1275
Licensing restrictions	5cv	*0.3073*	*0.2351*	*0.3626*	*0.2477*	0.5127
Tax compliance	5cvi	**0.6168**	*0.1663*	*-0.0944*	*0.1865*	0.5564

Note: Principal Factors method, Oblique Oblimin rotation, four retained factors, N = 533.

(.379) and enforcement of contracts (.367) do not quite load onto the first factor, and regulatory restriction on property (.075) has virtually no loading.

Additionally among other components, three of the six business regulation variables load onto this first factor. Favoritism does most strongly (.823), after which administrative requirements (.649) and tax compliance (.617) load moderately strongly as well. Elsewhere, the first factor accounts for loadings by hiring regulations and the minimum wage (.546), non-tariff trade barriers (.493), and foreign investment restrictions (.400). Lastly, there is a negative loading by government consumption (-.485).

On the whole, factor one is most directly associated with a business-friendly legal system and little business regulation. Additionally with bribery/favoritism, the reliability of police, and the business cost of crime, there appears to be some association with the rule of law. Given the negative loading by a public sector component too, we might generally refer to this factor as private sector rights and privileges.

The second factor (24.1 percent of index variation) accounts for the strongest loading of the freedom to own foreign bank accounts (.718), followed by the mean tariff rate (.670) and capital controls (.622). It also accounts for loadings of two legal structure variables, regulatory restrictions on property (.572) and legal enforcement of contracts (.454), as well as one variable about credit regulation, which is private ownership of banks (.456).

Though by no means loaded by all the components of the free trade sub-index, three of the six substantial loadings for factor two concern open trade. And the strongest loading here, though counted as the fourth component of the sound money sub-index by the Fraser Institute, concerns foreign monetary activity. Given these points, and what the remaining loadings have in common, this factor would appear to peg a country's foreign investment attractiveness.

The third factor (23.4 percent of variation) accounts for moderately strong positive loadings on all three of the domestic components of the sound money sub-index, ranging from .672 to .739. It also accounts for interest rate controls and the real interest rate (.696), black market exchange rates (.608), trade compliance costs (.519), and the time and money it takes to start a business (.447). This factor appears to peg the stability of the monetary framework in countries. The only two variables that are not money-related—trade compliance and starting a business—both relate to regulatory time delays on business activity. This might suggest that the lack of such delays contributes to monetary stability, or simply that countries effectively stabilizing their currency also tend not to slow down business.

It should be noted that if you only allow for a three-factor model, the foreign investment attractiveness and monetary stability factors appear to merge into one factor, leaving the business rights factor and last factor mostly unchanged. So although the first three factors of the four-factor model all have similar inter-correlations (.319 to .364), the second and third factors appear to have some greater affinity with each other. This could be caused by monetary stability and greater trade openness attracting foreign investment more than a favorable legal system and certain business regulations.

The fourth factor, though smallest (14.7 percent), still accounts for some important variation. It encompasses loadings by four of the five indicators of the government sub-index, ranging from .422 to .769, as well as three of the six indicators of labor regulations, ranging from .502 to .632. Lastly, it accounts for a loading of administrative requirements (.528), the only variable to load positively on two separate factors; which is even more curious because factor four has slight negative correlations with each of the other factors.

Aside from administrative requirements, the last factor appears to peg a country's public sector orientation, or rather lack thereof. These would be countries with less public spending, taxation, hiring and firing regulation, centralized collective bargaining, and work hours regulation. However, government enterprise and investment did not load onto this factor. This suggests that the fourth factor is related to more indirect government intervention in the economy rather than the more direct action of actually owning and operating firms.

Much of the tension between the indirect government spending and labor factor and the other three factors appears to be related to economic development. Table 3 shows the average difference in freedom scores for both high and low income countries.[xxiii] The results are quite consistent. Among variables loaded by the first three factors, all show a *higher* average EF score for more developed countries; for the last factor, all show instead a *lower* average EF score. In other words, more developed countries tend to have more government spending, transfers and subsidies, higher taxation, and more labor regulations. This supports arguments by critics that advanced countries fail to adopt the same policies and practices that they pressure onto developing countries (Chang 2002). Statistically, it also suggests that causal interaction between various aspects of neoliberalism and development levels may be fruitful to explore.

[xxiii] I use the World Bank's threshold of $4,036 in per capita GDP.

Table 3. Average Economic Freedom Scores for Low and High Income Countries

Variable	#	Low Income[a]	High Income[a]	Difference	Factor
Size of Government					
Government consumption	1a	6.827	4.754	-2.07	-1,4
Transfers and subsidies	1b	8.782	6.107	-2.67	4
Government enterprise/investment	1c	3.995	6.171	2.18	
Top marginal income tax	1di	5.514	4.723	-0.79	4
Income and payroll tax	1dii	5.238	4.033	-1.21	4
Legal Structure					
Judicial independence	2a	4.031	6.995	2.96	1
Impartial courts	2b	4.234	6.523	2.29	1
Protection of property rights	2c	4.443	6.854	2.41	1
Military interference (rule of law)	2d	5.373	8.719	3.35	
Integrity of the legal system	2e	5.153	8.375	3.22	1
Legal enforcement of contracts	2f	3.936	5.835	1.90	2
Regulatory restrictions on property	2g	6.485	7.731	1.25	2
Reliability of police	2h	4.602	7.194	2.59	1
Business costs of crime	2i	4.980	7.440	2.46	1
Sound Money					
Money growth	3a	7.406	8.535	1.13	3
Standard deviation of inflation	3b	6.929	8.382	1.45	3
Inflation (most recent year)	3c	7.236	8.421	1.19	3
Owning foreign bank accounts	3d	3.530	6.605	3.08	2
Trade					
Trade tax revenue (% of trade)	4ai	5.803	8.579	2.78	2
Mean tariff rate	4aii	6.140	8.565	2.42	2

Table 3. (continued)

Variable	#	Low Income[a]	High Income[a]	Difference	Factor
Trade (continued)					
Standard deviation of tariff rates	4aiii	5.445	6.597	1.15	
Non-tariff trade barriers	4bi	5.281	7.271	1.99	
Trade compliance costs	4bii	6.061	8.616	2.55	3
Black market exchange rates	4c	7.415	8.943	1.53	3
Foreign investment restrictions	4di	6.450	7.637	1.19	
Capital controls	4dii	2.109	4.585	2.48	2
Freedom of foreigners to visit	4diii	3.850	6.188	2.34	
Regulation					
Private ownership of banks	5ai	4.428	6.791	2.36	2
Private sector credit	5aii	7.601	8.004	0.40	
Interest rate controls/real rate	5aiii	6.969	8.708	1.74	3
Hiring regulations, minimum wage	5bi	5.829	6.386	0.56	1
Hiring and firing regulations	5bii	4.782	4.749	-0.03	4
Centralized collective bargaining	5biii	6.591	5.868	-0.72	4
Hours regulation	5biv	7.330	5.712	-1.62	4
Worker dismissal costs	5bv	5.278	7.326	2.05	
Military conscription	5bvi	5.427	5.228	-0.20	
Administrative requirements	5ci	3.509	4.186	0.68	1,4
Bureaucracy costs	5cii	5.230	5.676	0.45	
Starting a business	5ciii	7.162	8.067	0.90	3
Extra payments/bribes/favoritism	5civ	4.676	7.428	2.75	1
Licensing restrictions	5cv	6.129	7.805	1.68	
Tax compliance	5cvi	5.902	7.802	1.90	1

[a]Income threshold set at GDP pc of $4,036, using 2005-2010 country averages.

Other Dimensions of Neoliberalism

While four underlying factors have been extracted from the Fraser index, economic freedom is not simply synonymous with neoliberalism. I now discuss the correlations between the EF factors and the other measures of neoliberalism I have collected. These include deindustrialization, precarious economic circumstances, foreign dependence, free trade regimes, and privatization of social services. If we accept the theoretical necessity of these dimensions, and the measurement adopted here, then the question remains if the variation falls along similar lines as the index's factor structure or whether separate measurement can be preserved.

The first section of Table 4 shows the average correlation with the components that loaded onto each of the four index factors.[xxiv] The deindustrialization variable measures the percent decline in industrial value added relative to GDP. It shows little correlation with any of the four factors. In fact, this measure of deindustrialization shows little correlation with any of the index variables or variables representing further dimensions of neoliberalism. This suggests strong independence from the other dimensions. The directions of correlation, at least, are consistent with correlations between the four factors—that is, positive among the first three factors, and a negative correlation with the fourth factor—suggesting some consistency in the factor structure. Nevertheless, studies not directly accounting for deindustrialization may be missing a major process pertaining to neoliberalism.

[xxiv] A table with the full list of correlations for all 42 original EF variables is available on request.

Table 4. Correlations between Economic Freedom Factors with Other Dimensions of Neoliberalism

	Average correlation among every component loading onto factor								
Four Factors	De-ind.	Part-time Employ.	Longterm Unemp.	FDI Flows	FDI Stock	IMF Credit	BTAs	Private Health.	Private Educ.
Business & property rights (F1)	.0771	.0959	-.1864	.1345	.2376	-.2316	.1916	-.3510	-.0817
Foreign investment attract. (F2)	.0621	.1180	-.0368	.2311	.2986	-.1506	.3231	-.3642	-.1323
Monetary stability (F3)	.0517	.0996	-.0895	.1795	.2381	-.2201	.2608	-.2211	.0034
Gov't spending and labor (F4)	-.0379	-.0099	-.1384	.1085	.0985	.0572	-.0905	.2708	.0701
Correlation Matrix	De-ind.	Part-time Employ.	Longterm Unemp.	FDI Flows	FDI Stock	IMF Credit	BTAs	Private Health.	Private Educ.
Deindustrialization	1								
Part-time employment	-.0362	1							
Long-term unemployment	-.0274	-.2642	1						
FDI flows	-.0343	-.0237	.1252	1					
FDI stock	-.0187	.0738	.1362	.5852	1				
IMF Credit	-.0171	.1156	.1542	.0028	.2424	1			
BTAs	.0438	.0769	.2020	.1905	.1481	.0027	1		
Healthcare spending, % private	-.0767	.0406	-.1268	.0059	-.0594	.2196	-.1272	1	
Private secondary enrollment	.0113	.2893	-.2890	-.0881	-.0363	-.0988	-.0794	.1634	1

Regarding worker precariousness, part-time employment as a percentage of employment has some weak correlation with the first three factors of economic freedom (.095 to .118), but virtually zero correlation with the government spending and labor factor (-.010). Among other components of neoliberalism, part-time employment has some weak correlation with IMF credit (.116), and relatively moderate correlation with private secondary enrollment (.289).

Long-term unemployment as a percentage of unemployment, intended to capture the pressure of a surplus labor supply, has some weak negative correlations with the four factors. It is strongest with business and property rights (-.186) and government spending and labor (-.138), and virtually zero for foreign investment attractiveness (-.037). It has weak positive correlations with FDI flows (.125), FDI stock (.136), and IMF credit (.154). Private education shows a relatively moderate negative correlation (-.289).

Lastly, part-time employment and long-term unemployment have a moderate negative correlation (-.264). This is likely due to a trade-off, all things being equal, between employing more people at fewer hours and employing fewer people full-time at greater hours. We might also worry about those who have given up looking for work, who are not classified as unemployed, but if they are not applying for jobs then they would not be causing any direct pressure on the labor market. In any case, part-time employment and long-term unemployment do not appear to capture the same variation related to the worker precariousness characteristic of neoliberalism.

Regarding foreign dependence, the net inflow of FDI shows weak to moderate positive correlations with all four index factors, not surprisingly highest for foreign investment attractiveness (.231), while lowest for government spending and labor (.109).

FDI flows have virtually zero correlation with IMF credit and with private healthcare spending, though it may have slight negative correlation with private education (-.088). Consistent with past research, the cumulative stock of FDI appears to show stronger correlations with many of the Fraser index's factors and components, suggesting greater consistency with neoliberalism. It also shows a moderate correlation with IMF credit (.242), another variable of foreign dependence.

Heavier usage of IMF credit shows moderate to weak negative correlations with the business and property factor (-.232), the monetary factor (-.220), and the foreign investment factor (-.151). The government spending and labor factor is not negative (.057), which is again consistent with the factor structure. Unlike FDI, which will flow to countries where it is likely to make a return on investment, IMF credit flows to countries that tend to be in greater need. That is, because we are simply looking at correlation, the results here do not suggest that IMF credit is causing lower economic freedom scores, but that countries with lower scores tend to receive more credit because the IMF feels they need to make greater adjustments.[xxv] Given the moderate correlation, IMF credit and FDI might be grouped together or analyzed separately.

Regarding free trade, the cumulative number of BTAs signed by a country has relatively strong correlation with investment attractiveness (.323), moderate correlation with monetary stability (.261) and business/property rights (.192), and slight negative correlation with government spending and labor (-.091). It also has slight negative correlation with private healthcare (-.127) and education (-.079). Like FDI stock, not

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[xxv] Research on the causal effects of IMF credit, however, has not found evidence that it increases economic freedom in countries (Boockman and Dreher 2003).

surprisingly, BTAs show a reasonable affinity with the primary liberalism axis. Given the importance of BTAs to neoliberalism, it would make sense to separate it as a dimension all its own, but it might also be grouped with foreign investment.

Greater privatization of healthcare and education have some weak positive correlation between them (.163), and several similar correlations with the EF factors. Private healthcare has relatively strong to moderate negative correlations with the first three factors (-.221 to -.364), and a moderate positive correlation with the government spending and labor factor (.271). Private education, meanwhile, only has slight negative correlations with the business and property factor (-.082) and the foreign investment factor (-.132), as well as virtually zero correlation with the monetary factor (.003) and a slight positive correlation with government spending and labor (.070).

The historical contingency of religious private education in some countries may create the weaker and more mixed results, leaving private healthcare as having a more robust relationship with economic freedom along similar lines to the government spending and labor factor. Furthermore, classifications of private and public schools may be ambivalent at times, such as the charter school movement in the United States. Given the stronger correlations as well, healthcare privatization may be more clearly associated with the decline in social spending characteristic of neoliberalism.

While measures for these other dimensions of neoliberalism showed some correlation with the index factors (especially FDI, BTAs, and private healthcare), they also showed some substantial independence (especially deindustrialization and worker precariousness). This is in part because neoliberalism and economic freedom are not one in the same. For those interested in studying contemporary political economy cross-nationally, the index of EF provides a useful database, but an incomplete one. Ideology is insufficient to study real-world trends. Measures that capture the modern shift toward neoliberalism must also look at other important dimensions, such as those included here.

Conclusion

In this paper, I have argued that studies related to neoliberalism, dispersed within several distinct literatures, have had several weaknesses. Theoretically, these include not subsuming the study of economic globalization within the larger neoliberal project, oversimplifying a complex multidimensional phenomenon, and becoming too immersed in the rhetoric of economic freedom by both advocates and critics. Empirically, some studies fail to use a multidimensional scale for neoliberalism altogether, while most fail to capture some key dimensions alongside the more commonly recognized ones such as free trade regimes, corporate restructuring, dependence, and worker insecurity. Lastly, many studies in the past have had to concentrate on one region or group of countries, especially OECD countries, but newer data sets allow for a greater worldwide comparison.

The evidence presented here shows that the “economic freedom” index captures possibly four dimensions associated with neoliberalism, which can be extracted from the index as researchers see fit. As useful as these measures are, however, more indicators are necessary to fully capture neoliberalism. As I have argued, these include measures for offshoring, labor precariousness, foreign dependence, privatization, and free trade regimes. The evidence suggests there is overlap between measures of these other dimensions and the dimensions of the Fraser index, but also partial independence. Studies that rely on some but not others may insufficiently capture neoliberalism to its full extent.

As cross-national data continues to improve, researchers will have more options available to measure both neoliberalism and its consequences. This paper suggests how data gathering can be improved for those studying neoliberalism. More worldwide data will be needed that differentiates types of government spending, as well as better indicators of labor precariousness. No matter which indicators are selected, however, strong inter-correlations can make regressions suffer from multicollinearity problems. Decisions will have to be made about how to group them together and which ones will be isolated. The analysis presented here offers some preliminary techniques, theoretical arguments, and empirical evidence regarding operationalization.

In the face of global economic stagnation and a crisis of legitimacy, neoliberalism may be coming to an end after many decades of predominance. If we fail to appropriately study neoliberalism today, we will likely make similar mistakes in the future studying whatever political economic system replaces it. We will also fail to appreciate the full extent of neoliberalism's profound legacy.

CHAPTER 5

NEOLIBERALISM AND INEQUALITY

Between- and Within-Country Variation Examined against Multiple Dimensions (1970-2010)

Income inequality in the United States has been rising sharply for more than three decades (Piketty 2014:24). Only after the Great Recession and Occupy Wall Street, however, did the problem of growing inequality finally capture mainstream attention from the media, politicians, and intellectuals. In a 2016 Gallup poll, more Americans expressed dissatisfaction with the distribution of income and wealth (68 percent) than they did with the amount they pay in federal taxes (61 percent) or government surveillance of citizens (52 percent) (Riffkin 2016).

Similarly, the 2015 Economic Report of the President focused a great deal on inequality, arguing that the ongoing recovery from the 2008 financial crisis has failed to improve the financial well-being of middle-class Americans. President Obama therefore called for a “middle-class economics” that would invest more in education and raise taxes on the wealthy—but would not, as some critics worried, roll back trade deals like the North American Free Trade Agreement (NAFTA) and Trans-Pacific Partnership (TPP) (Harwood 2015).

Economist Lawrence Summers also co-chaired a study calling for greater shared prosperity (Summers and Balls 2015). When such longtime proponent of economic liberalization begins to address inequality, it signifies a definitive shift in the political discourse and consensus-building among elite planners in the U.S. However, as in the president's report, rising inequality is blamed on abstract and inevitable economic transformations like globalization, for which no one is responsible and against which only minor policy changes can be effective. There is no stopping corporate globalization in this view, and no need for fundamental change.

I argue instead in this paper that a critical explanation of inequality today is the emergence of neoliberalism, which is causally prior to globalization and other related economic phenomena of the past several decades (see also Kotz 2015). Neoliberalism emerged as the dominant worldwide economic consensus after the 1970s and the breakdown of the postwar Keynesian system. Rather than simply a revival of free-market ideology, neoliberalism primarily represents an economic system designed to revitalize corporate profits and ensure a high return on investment. It involves many different strategies to achieve this, including economic liberalization, industrial restructuring, neoliberal globalization, and privatization.

To assess this multi-faceted phenomenon and its effect on inequality, I use cross-national panel data for 129 countries across the years 1970-2010. Inequality is regressed here using two distinct models: one with year fixed effects (YFE), which analyzes strictly between-country variation, and one with country fixed effects (CFE), which analyzes strictly within-country variation. I also examine supplementary models estimating potential non-linear effects, including interactions between neoliberalism and economic development, as well as a parabolic specification of the neoliberal predictors to test for curvilinear relationships with inequality.

In the first section, I develop my theoretical argument about neoliberalism in contrast to three major perspectives on rising inequality—economic globalization, declining market intervention, and corporate restructuring. I argue that neoliberalism represents a fundamental change in the elite consensus and political economy, one that precedes and accounts for these later trends. I focus primarily on past empirical studies as they most directly inform the research here. Following this, I develop my methods and summarize my data sources. In the last two sections, I present and discuss the major findings, concluding that neoliberalism is an important explanation of rising income inequality over the past several decades.

Theoretical Development

Previous work on rising income inequality I argue has suffered from conceptual compartmentalization and numerous empirical shortcomings. First I critique existing theoretical explanations of rising inequality before I develop my argument that neoliberalism offers a more fundamental account. I then describe and assess the evolution of available data and methodology leading to my use of dual fixed-effects regression models on data sets from the World Bank, Fraser Institute, and United Nations.

While there was initially some debate over the degree and persistence of growing inequality (see Harrison and Bluestone 1988:vii-xxvi), the more recent data shows trends that are "sobering," according to U.N. economists Giovanni Cornia and Julius Court. "Since the early-mid 1980s inequality has risen in most countries, and in many cases sharply." Moreover, "it is clear that there are some common factors causing the widespread surges in inequality" (2001:5). There are many different explanations of what these "common factors" are, however, which I group into three major categories: globalization, market intervention, and corporate restructuring.

The first argument about inequality has focused on economic globalization. This conceptual framework overlaps with neoliberalism, but focuses more strictly on the increasing interconnectedness of countries through trade and investment flows, facilitated by new technology, rather than any intentional change in economic planning.

A widely cited study by Alderson and Nielson (2002) found that economic globalization was indeed associated with greater income inequality. The findings were upheld in later work (Bradley et al. 2003; Bergh and Nilsson 2010; Bandelj and Mahutga 2010). These studies argue essentially that international trade and investment have favored wealthier households within a country, whose income is derived more heavily from capital gains. Globalization has also weakened the bargaining position of unskilled labor, whose jobs can be more easily offshored or filled by foreign workers.

Another line of inquiry has focused on market intervention by both the state and organized labor. This includes the provisioning of social welfare by the government, the power of labor movements to raise wages, and progressive taxation which helps redistribute market income. All of these mechanisms have historically reduced income inequality generated by the economy, but have been in decline for several decades in many countries.

One of the most widely cited articles supporting this approach is Bradley et al. (2003), which used several different regression techniques and many control variables. Other studies have also upheld the argument about how the declining role of the welfare state and organized labor have generated greater inequality (Fortin and Lemieux 1997; Hicks and Kenworthy 2003; Checchi and García-Peñalosa 2008).

Similarly, other studies focus on a decline in taxation, especially taxes on corporations and upper incomes, as well as deregulation in business and finance, and how this diminishing of market interventions is associated with greater inequality (Cornia and Court 2001; Atkinson 2003). Thomas Piketty's book *Capital in the 21st Century* places great emphasis on the role of taxation, calling for a new global tax on capital. Historically, inequality declined substantially when progressive income and capital gains taxes were introduced in the early 1900s, and grew substantially when they were cut back starting in the 1980s and 1990s (2014).

A third line of inquiry has focused on the "great U-turn," or how corporate restructuring has caused inequality to rise after reaching low-points in the decades after WWII (Harrison and Bluestone 1988). Such restructuring has mainly involved deindustrialization, which entails the loss of "middle class" jobs throughout the developed world. Cross-national studies have not found significant results supporting this argument, at least when controlling for globalization, labor movements, and other demographics (Alderson and Nielson 2002; Bradley et al. 2003).

These arguments are by no means mutually exclusive, and therein lies the theoretical problem. What is the deeper cause of rising inequality that runs through these proximate explanations? I argue that the consensus of corporate elites shifted from a Keynesian strategy of state intervention, domestic production, and public investment to a neoliberal strategy of economic liberalism, export-oriented growth, and privatization, and this is the fundamental cause of rising inequality in many countries.

Neoliberalism emerged in the economic stagnation of the 1970s as a way for investors to revitalize falling profits and ensure a high return on investment. In this way, it is a multifaceted social and economic system. That is, there are many new strategies involved to ensure continued capital accumulation in the post-Keynesian economy. More specifically, these include business, finance, and labor deregulation, tax reform, social spending cuts, privatization of publicly owned firms, monetarist policy that places inflation control above full employment, industrial restructuring (offshoring and downsizing), international free trade regimes, increasing foreign investment, export-led growth, and the growing power of global economic institutions.

Neoliberalism is empirically then a multidimensional phenomenon. Focusing on only one trend like tax reform misses the bigger picture. Indeed, some studies report multicollinearity problems when including too many similar variables in the same model (Bradley et al. 2003; Bergh and Nilsson 2010). What most likely causes these seemingly independent factors to be heavily correlated is their incorporation into a larger political-economic design.

On the other hand, many studies do not include enough dimensions of neoliberalism. Because of the shared variation with omitted dimensions, these studies will inherently *overestimate* the effects of their selected variables. In addition, they will *underestimate* the overall effect of neoliberalism by having too narrow a focus and not enough variables.

By examining the effect of globalization or some other modern trend, studies also misleadingly associate rising inequality with inevitable technological and social progress. In other words, inequality is considered a byproduct of an otherwise desirable outcome, which can only reasonably be mitigated but not reversed. We should not, however, obscure the lack of democratic decision making inherent in modern political economy, specifically that neoliberalism is an *elite* consensus with effectively no public participation. And though globalization cannot be reversed, *neoliberal* globalization can be fundamentally altered.

The long-term solution to inequality must therefore go deeper than policy reform or mitigating the byproducts economic progress. Political economy needs to be democratized. Furthermore, a revival of Keynesian capitalism is not a viable solution because it too produced a tremendous amount of inequality, and ultimately proved itself economically unsustainable. Research that does not discuss neoliberalism as the deeper cause of heightened inequality will necessarily miss the deeper solutions to the problem.

The Evolution of Data and Methodology

Studies of household income inequality comparing different nations, such as those cited above, have always been constrained by a lack of quality data. Not surprisingly then, most studies have concentrated on the societies with the best data, i.e. wealthier countries. However, as better data has become available, studies have improved their quality and coverage.

The Luxembourg Income Study (LIS) is widely considered to be the best cross-national data set available, but until very recently only had data for about 30 high-income countries. The more recently developed World Wealth and Income Database (WID) unfortunately does not presently offer summary measures, only income shares at the top. Its coverage of countries is also lower than LIS, but more data is being added. Trying to maximize coverage, Deninger and Squire (D&S) assembled what was at the time the largest set of inequality measurements from different countries—both high- and low-income—but as they themselves noted, comparability was low due to inconsistent survey methodologies (1998).

In 2006, a United Nations team of researchers basically updated the D&S data set to create the World Income Inequality Database (WIID), but WIID still lacked comparability. In 2008, political scientist Frederick Solt used an imputation method to try to standardize data from WIID (SWIID). Essentially, he used available correlations between alternative income definitions—for example, pre- and post-tax income, with or without household adjustments—to fill in the gaps and standardize data to the LIS methodology. While an imperfect solution, SWIID remains for now the best available data source for worldwide cross-national comparison.

It should be noted that SWIID data still suffers from a biased estimation of top incomes. Many income surveys seriously under-represent the top 1 percent of incomes, due to difficulties in gathering information on wealthy households. Given that top incomes have seen by far the greatest increase over the course of the neoliberal era, this makes the use of SWIID data for this paper a conservative choice. In other words, if the expected relationship can be found with SWIID, one would expect that relationship to strengthen with data that better captures the income of the 1 percent. For reference, see how changes over time in the pre-tax income share of the 1 percent (WID) compares to the pattern for the SWIID measure of overall inequality using the Gini coefficient in the United States from 1960 to 2012 (Figure 11).

All data, however, is also biased because it cannot account for hidden money. Berkeley economist Gabriel Zucman estimates that \$7.6 trillion, or about 8 percent of the world's financial wealth, is hidden in offshore tax and regulatory havens (2015). The

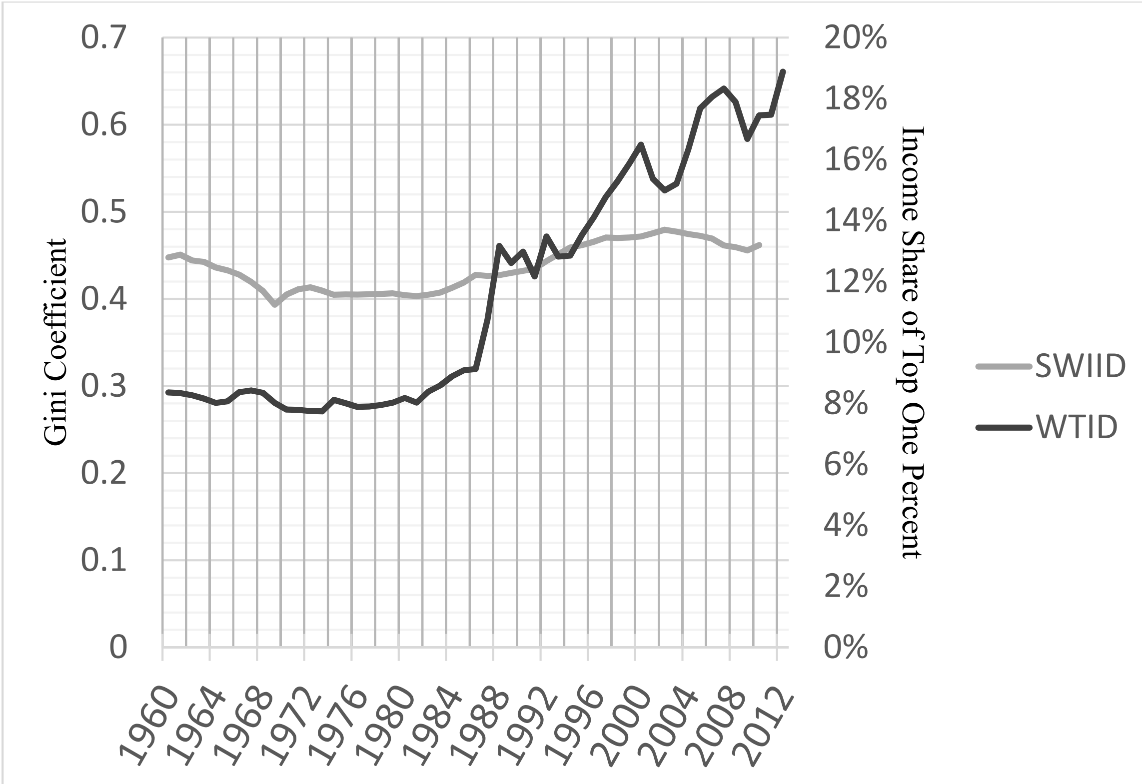

Figure 11. Pre-tax Household Income Inequality in the United States

annual income that contributes to this wealth, if accounted for in official data, would surely strengthen this paper's argument about neoliberalism—particularly financial deregulation in this case.

Nonetheless, all these datasets are longitudinal—many individual countries with measurements each year. The problem with analyzing such data simply is that it sharply violates the assumptions of ordinary least squares (OLS) regression. Specifically, error terms will be heavily correlated within countries at different points in time.

A theoretical problem also arises from such an analysis—it treats between-country variation and within-country variation as a single distribution for both the dependent and independent variables. But differences between countries and differences within them cannot always be interpreted in the same way. In other words, changes within countries typically represent policy shifts and weaker, more superficial changes; while differences between countries usually represent deep institutional and cultural differences that are far stronger but not easily changed by government officials. Thus, between-country variation can better elicit deeper levels of causation that tend not to vary within countries, even over a long time span.

Many studies favor a fixed effects regression model to deal with longitudinal data, which eliminates all unobserved heterogeneity between countries (Alderson and Nielson 2002; Bradley et al. 2003; Bergh and Nilsson 2010; Bandelj and Mahutga 2010). Basically the same results would come from controlling for country-level means in an OLS regression. While these are often considered the best studies, eliminating all between country-variation is very limiting. As Thomas Piketty notes, “The increase in inequality since 1970 has not been the same everywhere, which … suggests that institutional and political factors played a key role” (2014:271). Differences between countries can help elicit these deeper levels of causation that tend not to vary within countries.

Some try to overcome this limitation by using random effects models, which combine within-country variation and a portion of the remaining between-country variation. This imperfect compromise, I argue, creates even more confusion. It cannot be used to isolate which effects come from smaller, policy-based changes, and which come from deep institutional differences between countries. In this paper, I therefore use year fixed effects models alongside country fixed effects models. This purely and simply separates between- and within-country variation, respectively, letting the researcher examine one at a time and make a clear contrast.

Lastly, it should be noted that many studies abandoned cross-national statistics in favor of examining "global inequality" (Firebaugh 1999, 2003; Sala-i-Martin 2002; Milanovic 2005; Anand and Segal 2008). There are several problems with such an approach. For one, it is unclear what global inequality actually means conceptually given the relatively distinct nature of income inequality within national economies and disparities in economic development between different countries. Secondly, given the serious understatement of the income of the 1 percent noted above, estimates from these studies are questionably biased (again see Figure 11).[xxvi] Thirdly, and perhaps most important, such studies rely on a univariate trend over time. Cross-national statistics allow for any number of control variables to account for alternative explanations and external influences. Studies of global inequality can only speculate about cause and effect.

Quantifying Neoliberalism

Along the same lines as the theoretical compartmentalization, studies have incorporated many variables that capture different, but not all, aspects of neoliberalism under different names. One notable empirical effort is the "economic freedom" (EF) index, compiled by Gwartney, Lawson, and Hall of the Fraser Institute (2015). It

[xxvi] Studies like this one using regression can at least partly account for this bias. Basically, the exact amount of inequality, and whether it has increased for the world as a whole, is not as important here as the *variation* between countries and across time used to estimate the model. Nonetheless, regression cannot completely correct for this bias because of interaction effects. That is, you would expect the understatement of 1 percent income to be greater where neoliberalism is more deeply institutionalized.

measures various aspects of liberalism such as small government, the legal system, open trade, monetary stability, and deregulation.

Four past studies have analyzed the relationship between inequality and the EF index. The earlier two found that greater economic freedom was associated with less inequality (Berggren 1999; Scully 2002). However, these studies relied on selections from the unstandardized D&S data set, which resulted in sample sizes below 100 cases, making their findings unreliable. Furthermore, as Carter (2007) notes in a later study in the same journal, both Berggren and Scully misinterpret their own reported models (p. 164-5).[xxvii] Carter instead finds that greater EF is in general associated with greater inequality. He employed the more up-to-date WIID, fixed effects modeling, and more control variables.

The fourth study, using SWIID and fixed effects modeling, finds that EF is mostly associated with greater inequality, but the effects vary among different sub-indexes (Bergh and Nillson 2010). However, these sub-indexes are somewhat arbitrary, developed by Gwartney et al., and use simple averages to compute scores. Furthermore, there are some dubious outliers, both empirically and theoretically, that should be excluded, notably military interference in the courts, black market exchange rates, and the freedom of foreigners to visit. To capture economic liberalism then, I use four factors emerging from factor analysis (Table 5) (DePhillips 2015).

[xxvii] Berggren misinterprets the direction of the effect of average EF on inequality. Scully claims the effect is significant when the p-value is actually well above .05 when calculated from his table.

Table 5. Factor Correlations with EF Index Variables

Business Rights	#	*Factor 1*	*Start*
Judicial independence	2a	.9178	1995
Protection of property rights	2c	.9021	1995
Payments/bribes/favoritism	5civ	.8756	1995
Reliability of police	2h	.8606	2005
Integrity of the legal system	2e	.8022	1995
Non-tariff trade barriers	4bi	.7976	1995
Business costs of crime	2i	.7642	2005
Impartial courts	2b	.7587	1995
Foreign investment restrictions	4di	.5625	1995
Tax compliance	5cvi	.5527	1995
Administrative requirements	5ci	.5215	2000
Hiring reg., minimum wage	5bi	.3342	1995
Government consumption	1a	-.2203	1970
Foreign Attractiveness	#	*Factor 2*	*Start*
Owning foreign bank accounts	3d	.8571	1970
Capital controls	4dii	.8235	1970
Trade tax revenue	4ai	.7420	1970
Private ownership of banks	5ai	.7346	1970
Mean tariff rate	4aii	.7140	1975
Regulatory restrictions, property	2g	.6342	2000
Legal enforcement of contracts	2f	.5729	2000
Monetary Stability	#	*Factor 3*	*Start*
Inflation (most recent year)	3c	.8340	1970
Money growth	3a	.8206	1970
Interest rate controls/real rate	5aiii	.8114	1970

Table 5. (continued)

Monetary Stability (continued)	#	*Factor 3*	*Start*
Standard deviation of inflation	3b	.8038	1970
Trade compliance costs	4bii	.6532	2000
Black market exchange rates	4c	.6360	1970
Starting a business	5ciii	.4569	1995
Government and Labor	#	*Factor 4*	*Start*
Income and payroll tax	1dii	.8466	1990
Transfers and subsidies	1b	.7431	1970
Top marginal income tax	1di	.7318	1970
Centralized collective bargaining	5biii	.6885	1970
Hours regulation	5biv	.6426	1970
Hiring and firing regulations	5bii	.5314	1990
Government consumption	1a	.4947	1970
Administrative requirements	5ci	.2545	2000

For the other dimensions of neoliberalism, I supplemented the index factors with outside data, mostly from the World Bank. To capture the effect of industrial restructuring, I use the industrial value added (percent of GDP) as a reference category to the value added in the agricultural and service sectors. This captures the effect of both industrialization (industry vs agriculture) and deindustrialization (service vs industry).

To the effect of free trade regimes, I use the cumulative number of bilateral trade agreements (BTAs) signed by a country. For neoliberal globalization, I use the amount of International Monetary Fund (IMF) credit loaned, and the cumulative net inflow of foreign direct investment (FDI), a widely used indicator of foreign capital penetration. I also include dummy variables for countries that had not signed any BTAs (mostly earlier years) or did not receive any IMF credit (more developed countries). Lastly, I include an important variable unique to the four factors of the EF index that was omitted—government ownership and investment. Since the scale is "freedom from" public ownership, the variable captures privatization. (Table 6)

I would expect these dimensions of neoliberalism to have a positive correlation with inequality for three major reasons. First, neoliberalism represents a shift away from states and the public toward markets. Given the competitive nature of markets, incomes should become more dispersed as people win and lose in competition. This expectation would best be seen in the four economic liberalism factors and privatization from the EF index.

Second, the changes related to neoliberalism appear to have a beneficial effect on incomes derived from capital—that is, very high incomes—and simultaneously have a detrimental effect on wages and salaries, especially for low-skilled workers whose job

Table 6. Operationalization for Neoliberal Models

Concept	Measurement	Transform	Source	Mean[a]	St.dev.[a]	Min[a]	Max[a]
Dependent Variable							
Income Inequality	Gini Coefficient	—	SWIID	38.10	10.24	18.62	69.79
Independent Variables							
Business Rights	Factor 1	—	Fraser EF	0.557	0.622	-1.31	1.89
Foreign Attractiveness	Factor 2	—	Fraser EF	0.328	0.902	-1.65	1.83
Money Stability	Factor 3	—	Fraser EF	0.188	0.887	-3.50	1.26
Gov't & Labor (Lack of)	Factor 4	—	Fraser EF	-0.048	0.943	-2.33	2.68
Industrialization	Industry VA vs Agricultural	Log-Odds	World Bank	55.48	12.31	12.87	91.72
De-industrialization	Service VA vs Industry	Log-Odds	World Bank	13.59	12.70	0.041	62.38
Free Trade	Total # of BTAs signed (w/dummy)	Log	UNCTAD	21.29	26.76	0	155.0
Dependency	IMF Credit (w/dummy) (vs GDP)	Log	World Bank	0.018	0.043	0	0.516
Econ. Globalization	Foreign Direct Investment (vs GDP)	Cube Root	World Bank	0.187	0.253	-0.147	5.44
Privitization	Government Own/Invest	—	Fraser EF	5.29	3.04	0	10.00
Controls							
Education	Secondary Enrollment (%)	Log-Odds	World Bank	70.59	28.18	5.06	162.35
Employment	Employment (%)	—	World Bank	57.67	8.14	30.80	86.90

Table 6. (continued)

Concept	Measurement	Transform	Source	Mean[a]	St.dev.[a]	Min[a]	Max[a]
Controls (continued)							
Young	Percent 14 and under (vs adults)	Log-Odds	World Bank	0.307	0.107	0.134	0.500
Elderly	Percent 65 and older (vs adults)	Log-Odds	World Bank	0.080	0.050	0.019	0.227
Country Size	Population (in millions)	Log	World Bank	53.20	148.0	0.217	1,300
Legal System	Old Fraser Index (V)	—	Fraser EF	2.68	3.05	0	9.10
World Region	Author's Categorization	—	—				
Time	Year of Measurements	—	—			1970	2010
Kuznets Curve/Great U-turn	GDP per capita w/ squared	Log	World Bank	8,700	12,800	81	112,000

[a] Descriptive statistics are calculated using untransformed variables for easier interpretation.

security is the weakest. These would include the dimensions related to economic globalization and corporate restructuring, such as deindustrialization, BTAs, and FDI.

Third, given that neoliberalism is primarily an elite consensus that formed without any public participation, a cursory consideration of power would suppose that neoliberalism would benefit elites at the expense of the majority. This expectation would come from the overall picture of neoliberalism, rather than any particular dimension or measure.

Determining the effect of neoliberalism requires accounting for external influences on inequality. To control for the effect of education, I use net enrollment for secondary school. For the effect of economic dependents, I control for the percent young (aged 14 and under) and percent elderly (aged 65 and older), leaving the adult population as the reference category. I also control for the population size of the country, to control for possible differences in the political economies of large and small countries, as well as population growth within countries.

Since inequality varies widely by region of the world, I include several dummy variables in the between-country model, using the West[xxviii] as a reference. Lastly, I include GDP per capita and its squared term. For the between-country model this parabola represents the Kuznets curve (with an expected negative squared coefficient)

[xxviii] The West includes the countries of Western Europe, as well as their offshoots, the United States, Canada, Australia, and New Zealand. The regional groupings in this paper were meant to control for some of the deep institutional and cultural differences noted above that is present inside between-country variation. However, the West is the only category which ends up geographically dispersed—not surprising given Western history.

and for the within-country model it represents the great U-turn (with an expected positive squared coefficient).

In addition to control variables, I test for nonlinear effects of neoliberalism in two different ways. First, much of the discussion surrounding neoliberalism concerns international relations—developed countries pressuring developing countries to liberalize through international institutions like the IMF and World Bank. Consequently, it may be instructive to examine how these effects vary by level of development. To do this, I include interaction terms between GDP per capita and the indicators of neoliberalism in a supplementary model.

Second, it is very common for cross-national studies to explore quadratic effects of primary independent variables. I do this in a second supplementary model[xxix] finding many significant squared terms. Essentially these curves test whether the effect of neoliberalism on inequality follows a U-shaped or an inverted U-shaped pattern. And, depending on where the parabola's maximum or minimum lies, this tests whether the effect is declining or strengthening in magnitude as neoliberalism approaches very large or very small values.

Findings

In this section, I discuss the main findings from the fixed-effects regression models of income inequality. As I argued above, I expect that dimensions of

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[xxix] The interaction terms and squared terms are kept in separate models due to potential problems with multicollinearity among so many similar non-linear variables. However, all the interaction terms are included in a single model, and all the quadratic terms are included in another model. In other words, all interaction terms control for each other, while all quadratic terms also control for each other.

neoliberalism will have a positive sign in the models, indicating associations with greater inequality. The first column in the linear models (Single Factors) actually represents the results from many separate models. Each model took a single neoliberalism score or a single control variable[xxx] and included with it GDP pc and its squared term, as well as the regional dummies (in the YFE model) or the year variable (in the CFE model). This captures the effect of a single variable without the other dimensions of neoliberalism or controls. It thus provides a baseline for interpreting the full linear model in the second column.[xxxi] In turn, the full linear models provide a reference point for interpreting the results from the interaction and quadratic models.

Included in the nonlinear models are columns listing important points of reference. These show when the effects change from positive to negative. If the interaction term is positive (or negative), all GDP pc levels above the dollar amount listed will have increasingly positive (or negative) associations between inequality and the particular dimension of neoliberalism, and below this dollar amount the associations are increasingly negative (or positive). Likewise, if the quadratic term is positive (or negative), all standardized values above what is listed will show increasingly positive (or negative) associations with inequality along the particular dimension.

[xxx]This excludes the functionally related pairs that should not be separated. These pairs are industrialization/de-industrialization (since industrial value added is the reference value), the BTAs and IMF credit dummies (which control for cases with no BTAs or no IMF credit), and young and elderly (since adult is the reference category).

[xxxi] This was done instead of using a bivariate correlation matrix because not controlling for a few basic factors like region of the world or the Kuznets curve gives very misleading results. This is because these controls have a very large statistical effect on inequality cross-nationally.

Year Fixed-Effects (Between-Country Variation)

The YFE regressions appear to show four major patterns. First, most of the significant linear coefficients are positive, as expected (Table 7). This shows that for many dimensions, the overall trend is toward greater inequality with greater embeddedness of neoliberalism. FDI and less government investment have no significant nonlinear terms in the supplementary model, meaning these linear effects can be taken as robust. In fact, FDI shows the largest linear coefficient of the neoliberal dimensions in the YFE model. The semi-standardized value of about 1.4 indicates that on average a country one standard deviation above another by FDI has a Gini coefficient 1.4 points higher, all else being equal.

The two exceptions to the general finding of positive coefficients are the monetary stability factor and BTAs. The monetary stability factor's effect is consistent with past research, and it should be noted that it represents more of a developmental outcome factor than a policy-orientation factor like the others from the EF index. That is, it is heavily influenced by inflation and monetary stability rather than specific neoliberal policies that emerged in the 1970s. Both, however, have significant nonlinear terms, complicating the nature of their relationships with inequality. In addition, IMF credit has no significant linear or nonlinear terms.

The second pattern is that many significantly positive neoliberal terms (five out of seven) lose strength in the full model compared to the single factor models. This indicates some shared variation among these dimensions that is associated with greater inequality. One exception is FDI, which is effectively constant. The other exception is deindustrialization, which roughly doubles in strength. This suggests that previous studies failing to

Table 7. Linear Between-Country Model of Inequality (YFE)

Variable	YFE Single Factors[a]	p	YFE Full Model	p
Business Rights (F1)	1.478***	.000	0.585*	.018
Foreign Attract. (F2)	1.521***	.000	1.321***	.000
Money Stability (F3)	-0.725***	.000	-0.993***	.000
Gov't & Labor (F4)	1.411***	.000	0.703***	.000
Industrialization	1.800***	.000	0.515	.080
De-industrialization	0.478*	.020	0.957***	.000
BTAs	-0.861***	.000	-1.269***	.000
no BTAs dummy	0.494	.277	-0.118	.791
IMF credit	-0.342	.101	-0.281	.145
no credit dummy	-0.294	.449	0.956**	.006
FDI	1.394***	.000	1.398***	.000
Gov't Investment (1c)	1.010***	.000	0.603***	.000
Secondary Enroll.	-0.948***	.000	-0.538*	.017
Employment	-1.104***	.000	-1.580***	.000
Young	2.687***	.000	3.056***	.000
Elderly	-2.841***	.000	-1.970***	.000
Population	0.827***	.000	1.614***	.000
Legal System (V)	-0.912***	.000	-0.571*	.019
Region (vs the West)				
East Asia	8.922***	.000	4.430***	.000
LAC	15.389***	.000	9.342***	.000
Eastern Europe	0.833	.188	3.376***	.000
Mid. East & N. Africa	7.883***	.000	0.685	.337
Sub-Sah. Africa	19.383***	.000	13.300***	.000
GDP pc	-0.772***	.001	-0.168	.718
squared term	-1.703***	.000	-1.342***	.000
R^2 within	.6215[b]		.7174	
N	2644		2644	

Note: Semi-standardized effects by sample means and standard deviations

[a] Controlling only for regional dummies & GDP pc squared

[b] R^2 refers to model with regional dummies & GDP pc squared

*p<.05 **p<.01 ***p<.001

account for multiple dimensions of neoliberalism may fail to properly capture the effect of deindustrialization.

The third pattern in the YFE models is that most significant interaction terms with GDP (Table 8) are positive (four out of five). In the case of the foreign investment factor, this means that it shows an increasingly strong association with greater inequality as income level increases. For the other significant positive interactions, the effect of neoliberalism switches from negative to positive. This means that for the government-labor factor, the top 96 percent of cases show a positive association; for deindustrial-ization, the top 81 percent; and for BTAs, only the top 18 percent. This explains why BTAs was significantly negative in the linear model, but the interaction shows that for high income countries, BTAs are associated with greater inequality.

The one exception to the pattern of positive interactions is industrialization. This neoliberal dimension switches from a positive to a negative effect, wherein the top 33 percent of cases by income level show less inequality with greater industrial VA relative to agricultural. This actually appears to fit nicely with the corporate restructuring aspect of neoliberalism, in which manufacturing is offshored from developed to developing countries. In other words, the interaction term here shows that medium and low income countries show the historically typical increase in inequality with rising industrialization, while high income countries that maintain or extend their industry in spite of neoliberalism tend to have less inequality.

The fourth pattern is that most significant quadrative terms (Table 9) are positive (four out of five), which represents a U-shaped curve. These indicate that medium-level cases generally have the lowest inequality, but this minimum varies substantially by

Table 8. Between-Country Interaction Model of Inequality (YFE)

Variable	Main Effects	p	Interactions w/ GDP pc	p	No Effect at GDP pc
Business Rights (F1)	0.509*	.042	0.119	.576	$3
Foreign Attract. (F2)	1.627***	.000	0.515*	.015	$19
Money Stability (F3)	-0.642***	.000	0.358	.056	$52,689
Gov't & Labor (F4)	0.828***	.000	0.504***	.000	$213
Industrialization	0.655*	.039	-1.174***	.000	$7,268
De-industrialization	0.990***	.000	0.948***	.000	$558
BTAs	-1.708***	.000	1.591***	.000	$16,607
no BTAs dummy	0.868	.058			
IMF credit	-0.413*	.031	-0.139	.489	$25
no credit dummy	0.886*	.012			
FDI	1.286***	.000	0.009	.945	$0
Gov't Investment (1c)	0.447**	.002	0.116	.442	$6
Secondary Enroll.	-0.615**	.007			
Employment	-1.365***	.000			
Young	3.705***	.000			
Elderly	-1.295*	.014			
Population	1.687***	.000			
Legal System (V)	-0.128	.598			
Region (vs the West)					
East Asia	5.025***	.000			
LAC	8.908***	.000			
Eastern Europe	3.520***	.000			
Mid. East & N. Africa	0.918	.197			
Sub-Sah. Africa	12.344***	.000			
GDP pc	-0.512	.271			
squared term	-2.321***	.000			
R^2 within	.7373				
N	2644				

Note: Semi-standardized effects by sample means and standard deviations

*p<.05 **p<.01 ***p<.001

Table 9. Quadratic Between-Country Model of Inequality (YFE)

Variable	Linear Terms	p	Squared Terms	p	Max/min at Z-score
Business Rights (F1)	0.941	.000	0.431***	.000	-1.092
Foreign Attract. (F2)	1.389	.000	0.184***	.179	-3.773
Money Stability (F3)	0.300	.210	0.546***	.000	-0.274
Gov't & Labor (F4)	0.774***	.000	-0.575***	.000	0.674
Industrialization	0.597**	.071	0.009***	.936	-34.234
De-industrialization	1.140	.000	0.431***	.000	-1.322
BTAs	-0.552	.010	0.828***	.000	0.333
no BTAs dummy	-0.178***	.693			
IMF credit	-0.097	.673	0.159***	.148	0.304
no credit dummy	1.477***	.000			
FDI	1.137***	.000	-0.051***	.525	11.100
Gov't Investment (1c)	0.498	.000	0.146***	.229	-1.704
Secondary Enroll.	-0.529***	.021			
Employment	-1.271***	.000			
Young	3.924***	.000			
Elderly	-1.580***	.003			
Population	1.538***	.000			
Legal System (V)	-0.332***	.171			
Region (vs the West)	0.000***	.000			
East Asia	4.311***	.000			
LAC	9.689***	.000			
Eastern Europe	3.729***	.000			
Mid. East & N. Africa	0.405***	.564			
Sub-Sah. Africa	12.603***	.000			
GDP pc	-0.919***	.051			
squared term	-2.013***	.000			
R^2 within	.7366				
N	2644				

Note: Semi-standardized effects by sample means and standard deviations

*p<.05 **p<.01 ***p<.001

neoliberal dimension. Business rights and deindustrialization both have a minimum level of inequality at more than one standard deviation below the mean. Above and below this minimum, there is increasingly more inequality (but only 7 and 10 percent of cases lie below each minimum, respectively). Monetary stability has a minimum less than one-third of a standard deviation below the mean (24 percent of cases lie below), and BTAs has a minimum one-third of a standard deviation above the mean (64 percent of cases lie below).

The one exception to the pattern of positive quadratic terms is the government and labor factor from the EF index. This inverted U-shaped curve indicates that cases two-thirds of a standard deviation above the mean have instead the highest level of inequality. Those below (75 percent of cases), which includes countries with increasingly more government intervention and labor regulation, have increasingly less inequality, as expected. So too, however, do those above (25 percent), which have increasingly less intervention and regulation but less inequality.

This curve may be due to state corruption and/or insular labor organizations, freedom from which lowers inequality. This has long been the argument used by the World Bank and IMF to impose neoliberalism on developing countries, to protect them from corrupt public institutions with the free market. However, the asymmetry of this parabola suggests that more could be accomplished to lessen inequality by legitimizing these institutions rather than simply reducing or eliminating their roles in the economy. Not to mention the important roles they play in many other respects, such as economic development.

Country Fixed-Effects (Within-Country Variation)

Four major patterns also appear in the CFE regressions. First, the results for many of the variables in the single factor and full models are noticeably weaker, and there are fewer significant results, than in the YFE analyses (Table 10). This is most likely due to having substantially less variation within countries than between them—indeed, less than one-seventh of the variation in inequality can be found within countries. The remaining three patterns, on the other hand, are similar to those found in the YFE regressions.

For those variables that had significance in the full linear model, the second pattern is that most again are positive (four out of five). Within countries, as it was between them, the overall trend is toward greater inequality with greater embeddedness of neoliberalism. The one exception is the foreign attractiveness factor, but it has a significant quadratic term, so it shows more complexity than a simple inverse relationship with inequality. The negative and significant BTAs dummy is also not actually an exception, because it shows that cases without any BTAs (mostly the earlier years in the sample, before free trade agreements took off) have significantly less inequality. In addition, IMF credit again has no significant linear or nonlinear terms. Lastly, it should be noted that lack of government investment has no significant nonlinear terms, so its positive association with greater inequality is simple and linear.

The third pattern, as with the YFE models, is that most significant interaction terms (Table 11) are positive (four out of five). All of these positive interactions switch from an association with less inequality to more inequality as income level increases. For monetary stability, the bottom 42 percent of cases by income level have an association with less inequality; for government/labor, 29 percent; for deindustrialization, only 18

Table 10. Linear Within-Country Model of Inequality (CFE)

Variable	CFE Single Factors[a]	p	CFE Full Model	p
Business Rights (F1)	0.673***	.000	0.558***	.001
Foreign Attract. (F2)	-0.390**	.007	-0.737***	.000
Money Stability (F3)	-0.054	.570	-0.163	.125
Gov't & Labor (F4)	0.000	.997	0.061	.616
Industrialization	-0.419	.212	-0.445	.218
De-industrialization	0.814***	.000	0.540**	.007
BTAs	0.500***	.001	0.158	.322
no BTAs dummy	-0.999**	.002	-0.714*	.036
IMF credit	-0.074	.591	-0.029	.835
no credit dummy	0.936***	.001	0.961***	.001
FDI	0.260	.053	0.340*	.014
Gov't Investment (1c)	0.249*	.017	0.245*	.024
Secondary Enroll.	-0.009	.952	-0.159	.292
Employment	-0.482***	.000	-0.445**	.002
Young	1.035*	.033	0.264	.613
Elderly	2.586***	.000	1.500*	.014
Population	-8.195***	.000	-5.621***	.001
Legal System (V)	0.267	.082	0.432**	.006
Year	-0.042***	.001	-0.056	.108
GDP pc	1.373***	.000	1.074**	.008
squared term	0.546***	.000	-0.054	.704
R^2 within	.0230[b]		.0795	
N	2644		2644	

Note: Semi-standardized effects by sample means and standard deviations

[a] Controlling only for regional dummies & GDP pc squared

[b] R^2 refers to model with regional dummies & GDP pc squared

*p<.05 **p<.01 ***p<.001

Table 11. Within-Country Interaction Model of Inequality (CFE)

Variable	Main Effects	p	Interactions w/ GDP pc	p	No Effect at pcGDP
Business Rights (F1)	0.407*	.018	0.242	.069	$201
Foreign Attract. (F2)	-0.411*	.015	0.207	.201	$70,989
Money Stability (F3)	0.073	.582	0.338**	.009	$2,103
Gov't & Labor (F4)	0.552***	.000	0.904***	.000	$1,115
Industrialization	-0.723	.055	-1.031***	.000	$966
De-industrialization	0.795***	.000	0.749***	.000	$542
BTAs	0.079	.615	0.118	.322	$1,017
no BTAs dummy	-0.290	.390			
IMF credit	-0.005	.969	0.280	.104	$3,064
no credit dummy	0.738**	.009			
FDI	0.243	.091	0.498***	.000	$1,359
Gov't Investment (1c)	0.080	.454	-0.074	.497	$16,887
Secondary Enroll.	-0.127	.404			
Employment	-0.342*	.018			
Young	0.609	.262			
Elderly	1.728**	.004			
Population	-3.903*	.039			
Legal System (V)	0.628***	.000			
Year	-0.053	.151			
GDP pc	1.031*	.011			
squared term	-0.175	.517			
R^2 within	.1340				
N	2644				

Note: Semi-standardized effects by sample means and standard deviations

*p<.05 **p<.01 ***p<.001

Table 12. Quadratic Within-Country Model of Inequality (CFE)

Variable	Linear Terms	p	Squared Terms	p	Max/min at Z-score
Business Rights (F1)	0.670***	.000	0.117	.099	-2.866
Foreign Attract. (F2)	-0.657***	.000	0.315**	.002	1.041
Money Stability (F3)	0.687***	.000	0.379***	.000	-0.907
Gov't & Labor (F4)	0.200	.124	-0.324***	.000	0.308
Industrialization	-0.764*	.049	-0.147	.135	-2.596
De-industrialization	1.168***	.000	0.593***	.000	-0.985
BTAs	0.528**	.004	0.295**	.002	-0.896
no BTAs dummy	-0.898**	.008			
IMF credit	-0.093	.582	0.015	.853	3.154
no credit dummy	0.964***	.001			
FDI	0.340*	.014	0.140**	.007	-1.217
Gov't Investment (1c)	0.213*	.046	-0.076	.349	1.393
Secondary Enroll.	-0.323*	.031			
Employment	-0.110	.453			
Young	0.357	.497			
Elderly	1.916**	.002			
Population	-0.439	.807			
Legal System (V)	0.502**	.002			
Year	-0.141***	.000			
GDP pc	0.952*	.019			
squared term	-0.247	.130			
R^2 within	.1311				
N	2644				

Note: Semi-standardized effects by sample means and standard deviations

*p<.05 **p<.01 ***p<.001

percent; and for FDI, 44 percent. The one exception is again industrialization (see interpretation above), though here in the CFE model there is an association with less inequality for the top 73 percent of cases.

The fourth pattern is that again most significant quadratic terms (Table 12) are positive (five out of six). The minimum levels of inequality for monetary stability, deindustrialization, BTAs, and FDI are all about one standard deviation below the mean; this leaves less than 20 percent of cases below any of these minimums. Foreign attractiveness, on the other hand, has a minimum level of inequality one standard deviation above the mean, leaving only 81 percent of cases below this minimum. Lastly, as with the YFE model, the exceptional quadratic term is the government-labor factor which has an inverted U-shaped curve. The maximum level of inequality is seen about one-third of a standard deviation above the mean, leaving 38 percent of cases above this (see interpretation above).

Discussion

In sum, the dimensions for neoliberalism showed many positive and significant linear effects, as expected, though this was less the case for the CFE (within-country) models. As better data becomes available—data which better captures the income share of the one percent—the results will likely become stronger. The results here should then be considered conservative estimates of the effect of neoliberalism.

In addition, many significantly positive effects lose strength in the full models compared to the single factor models (five out of seven between countries, and two out of four within countries). This supports the paper's claim that studies failing to account for a fuller range of neoliberal dimensions will necessarily overstate the strength of their particular predictor. The only substantial exception to this is the deindustrialization predictor in the YFE (between-country) model, which effectively doubles in strength. This exception suggests instead that studies not accounting for many neoliberal dimensions may instead fail to uncover the full strength of the effect of offshoring industrial production on inequality.

On the other hand, the net effect of all the neoliberal dimensions in the full between-country model is greater than any one measure in the single factor models, supporting my claim that studies with fewer dimensions necessarily understate the overall effect of neoliberalism. The neoliberal dimensions add predictive power to both the between- and within-country models—R^2 increases from 62.2% to 71.7% and from 2.3% to 8.0%, respectively.

In both the YFE and CFE models, interaction terms with GDP were mostly positive. This means that higher-income countries generally experienced stronger associations[xxxii] between neoliberalism and greater inequality. This may be due in a sense to more developed countries having more to lose. While less developed countries have relatively high inequality on average, more developed countries have established many institutions and policies, most of which after WWII, that restrain high inequality, such as welfare spending, housing subsidization, and collective bargaining protection. Rolling these back in conjunction with other neoliberal shifts would most likely have a larger effect on more developed countries.

[xxxii] BTAs in the YFE model is an exception, for which the association switched from less inequality in lower income countries to greater inequality in very high income countries.

Furthermore, the measures included here may not accurately capture the resistance to neoliberalism that came about later in reaction to reforms forced on less developed countries by international organizations like the IMF and World Bank. In other words, their economic liberalism scores might remain higher than in the past, but efforts at the grassroots level may help restrain growth in inequality and not appear in national statistics.

Quadratic terms were also mostly positive, having a U-shaped curve, and most of these had minimums well below the average case. This demonstrates that extreme cases, especially on the high end of neoliberalism, are typically associated with greater inequality. While this makes sense for high levels, it may also be that countries with very low levels are those that are more dysfunctional overall and have not yet developed an effective alternative to neoliberalism.

Lastly, it is again worth stressing just how much stronger the between-country model is compared to the within-country model. The R^2 is roughly nine times greater (71.7% to 8%), and the standardized effects are also somewhat greater, averaging 1.12 between countries and 0.73 within them. This shows that studies using only CFE models lose a great deal of explanatory power, while random effects models, by mixing both kinds of variation, will often understate the power of between-country effects and overstate the power of within-country effects.

Some dimensions, such as deindustrialization and government investment, showed very similar effects in both YFE and CFE models, though again weaker overall within countries. Others, such as the government-labor factor and industrialization, showed similar nonlinear effects but with somewhat different points of reference. Still others, especially the foreign investment factor, showed very different effects between and within countries.

As I suggested above, variation between countries should be considered deeper, institutional variation, while differences within them should be considered more superficial, policy-oriented differences. Even where the effect is the same in the YFE and CFE models, it does not necessarily mean the interpretation is the same. It may instead to show that institutional variation happens to have a similar effect size quantitatively with policy-oriented differences, but neither of which can change in the real world by exactly the same mechanisms. In other words, governments can pass new legislation with relative ease, but overcoming institutional failings takes greater social force.

In the case of foreign investment attractiveness, which does not show the same effect, countries with deeper levels of neoliberalism than other countries tend to have more inequality, a linear association which strengthens with income level. But within countries, years with greater foreign attractiveness policies tend to actually have less inequality, except for the highest one-fifth of cases in which attractive policies become associated with greater inequality. The former relationship is probably related to deep institutional differences, while the latter to policy changes over time. This is why I have argued for looking at both between- and within-country models separately. It makes interpreting between- and within-country effects clearer, in ways random effects models cannot.

Some of the control variables also show substantial differences, including the amount of elderly, population size, and GDP pc squared. Between countries, the effect of elderly appears to show how well developed countries, which have a much more top-heavy age pyramid, have much less inequality; but within countries, the effect shows that countries with more economic dependents tend to have more inequality. Meanwhile, countries with larger populations tend to have more inequality, but years within countries with larger populations tend to have much less inequality. Lastly, as noted above, the squared GDP pc term shows the Kuznets curve (negative) when comparing different countries, but the Great U-turn (positive) within countries. Indeed, in the CFE models, the squared term loses its significance, suggesting that neoliberalism and the controls appear to fully account for the Great U-turn.

The Kuznets curve represents a very deep, fundamental change across the course of economic development. But by not looking at between-country variation closely through YFE models completely separate from CFE models, previous work misses out on what this variation can teach us about social structure. Given the stronger results in the YFE models here, it also minimizes how urgently deep, structural change is needed if the effects of neoliberalism on inequality are to be reversed.

Conclusion

Cross-national data sources will continue to improve over time, and the value of studies such as this one will improve accordingly. This includes better coverage of cases, but most especially, better accounting of the top one percent's income. Meanwhile, methodology can also be improved to provide clearer and more compelling results, and our theoretical understanding can also be refined.

In this paper, I developed a system of measuring the multiple dimensions of neoliberalism and presented a clearer method of analyzing neoliberalism's relationship with inequality by using two separate types of fixed effects models. I also argued that neoliberalism is a critical explanation of rising inequality. Using the best available data I demonstrated that neoliberalism on the whole has a relatively robust association with higher inequality, one that appears to be more fundamental than alternative explanations.

To address inequality, policies that restrain economic liberalism, protect labor rights, better regulate business and finance, limit neoliberal globalization and corporate restructuring, and especially increase public investment are certainly in order. But understanding the nature of neoliberalism also informs us that more democratic decision-making needs to be initiated.

The public never participated in the formation of the neoliberal consensus, and there is every reason to think they would have responded differently to the economic challenges of the late 20th Century. Since the financial collapse of 2008, unconditional bailouts, harsh austerity measures, and generous quantitative easing, following the widely held neoliberal logic of elites, have become the norm. But there is still plenty of time for the public to press for a more equitable consensus to face the economic challenges of the 21st Century.

CHAPTER 6

ECONOMIC FREEDOM FOR THE FREE

The Contingency Effects of Neoliberalism on Alternative Explanations of Inequality

In the United States, inequality has been rising sharply and steadily for over three decades (Piketty 2014:24). Around the world, the trends are likewise "sobering," according to U.N. economists. "Since the early-mid 1980s inequality has risen in most countries, and in many cases sharply" (Cornia and Court 2001:5). Furthermore, "worsening situations in the 'traditional causes' of inequality, such as land concentration, urban bias, abundance of natural resources and inequality in education, are NOT generally responsible" (original emphasis, 6).

Inequality is known to adversely affect many aspects of public well-being, including national health and education outcomes, as well as increasing residential and other forms of segregation (Jencks 2002). It is also harmful to democracy because it inhibits the representativeness of the national interest and the range of debate among the major political parties (Ferguson 1995). Even economists worry that inequality inhibits growth and opportunity when it becomes too high, as it has in many countries (Cornia and Court 2001). Many people also see equality simply as a desirable goal in its own right, as a matter of social justice (Milanovic 2011).

Unfortunately, despite the sobering trends, inequality was largely ignored by leaders and policy-makers around the world during much of its climb. It was only recently, after the Great Recession and Occupy Wall Street, that inequality's influence on economic stagnation and social unrest finally captured mainstream attention. More alarming is that explanations, and hence potential solutions, to rising inequality largely ignore the underlying problem.

Most commentary on inequality blames the rise on "the twin forces of globalization and labor-replacing technologies that began to hit the American workforces like strong winds—accelerating into massive storms in the 1980s and 90s, and hurricanes since" (Reich 2014:13). The problem with such a metaphor is that it suggests the storm can only be weathered. Workers must accept that no one is to blame for their 21st Century predicament of low wages, job insecurity, and poor working conditions. No systemic or institutional change is necessary or effective in this view. Since globalization and technology are inherently progressive, the effects can only be mitigated by palliatives.

In contrast, I argue in this paper that inequality was not directly generated by globalization, technology, or any other popular but insufficient notion. Indeed, globalization and technology offer many opportunities for greater equality and do not necessarily lead to social disparities. Instead, most directly responsible is neoliberalism—a new elite consensus on political economy which emerged in the 1970s. This approach is, designed to revitalize capital accumulation at the expense of much of the 99 percent.

Elites could have come to a different consensus, but that would have meant sacrifice on behalf of the wealthy. Many subsequent trends like globalization largely took the shape that they did because of this consensus—that is, today we only know neoliberal, corporate globalization and technology implemented to maximize profit at the expense of labor. What is more, the consensus was formed effectively without any public input, representing a serious lack of democratic decision-making that needs to change if inequality is to be substantially reduced.

In this paper, I use cross-national panel data for 129 countries across the years 1970-2010 to assess competing explanations of rising inequality. Because many factors appear to be associated with greater inequality in their own right, it might make it seem that the explanations are simply complementary, and everyone is right. However, I focus the analysis here on the interaction between neoliberalism and each of the alternative explanations. I ask whether globalization and technology are still related to inequality for cases where neoliberalism is less embedded than others. I do the same for several other alternatives, including industrial restructuring, skills or human capital from education, and rising female employment.

In fact, I present evidence in this article suggesting that without the emergence of neoliberalism, there is no solid reason to think that globalization or technology would be related to inequality, or that inequality would have risen at all in many countries. If the global economy has indeed been hit by a metaphorical hurricane, then rising inequality is more like the Katrina disaster, not inevitable but man-made and preventable, caused by decades of neglect.

Alternative Explanations

In this section, I briefly review five major alternative explanations to income inequality, including globalization, technology, industrial restructuring, the new creative class, and female employment. I outline some of the evidence for these claims but also suggest some problems, especially those that relate to potential courses of development that would not have led to greater inequality. I argue instead that these alternatives are contingent on neoliberalism, which precedes many subsequent trends, both temporally and causally, and it affects the nature of these trends such that they become associated with greater inequality when they may not have otherwise.

Many social scientists argue that globalization has eroded national sovereignty and the power of the nation-state actor in the face of rapidly expanding international institutions and social processes (Sklair 1995; Sassen 1996, 2006; Strange 1996; Held et al. 1999; Beck 2000; Robinson 2004; Scholte 2005). This occurs in many different spheres—political, cultural, and social—but especially in the global economy. The expectation is that economic globalization leads to greater inequality because of the heightened international competition that global integration entails—workers competing with workers in other countries, and countries competing to attract foreign capital. These economic processes disempower national and local authorities from ensuring low inequality by intervening in the market as they once did.

Empirical studies have upheld this expectation, finding inequality associated with international investment flows and trade (Alderson and Nielson 2002; Bradley et al. 2003; Bergh and Nilsson 2010; Bandelj and Mahutga 2010). However, these studies take for granted that neoliberal globalization, one that heavily prioritizes the interests of global investors, is dominant. They do not examine whether economic globalization is still associated with greater inequality for cases in which neoliberalism is less embedded. Or, whether it is only in more economically liberal countries such as the United States and Britain, who have both seen rising inequality, that globalization is a significant factor.

A second major explanation focuses on the information technology (IT) revolution that began in the 1980s. Unlike manufacturing, IT places a premium on skills, which increase in demand as the economy incorporates technology, especially computers, into more and more facets of commercial, as well as non-commercial, operations. This skill-biased technological change (SBTC) thus hollows out the middle of the income distribution (Autor, Katz, and Kearney 2008) and is associated with greater inequality (Acemoglu 2000).

The concern over technology is nothing new—neither are attempts to understand economic change purely in market terms. However, other arguments in the past have been more optimistic about technology, claiming that it leads to skill upgrading rather than skill replacement. Like globalization, I argue that technology in itself is socially neutral, and its consequences are contingent on political economy—that is, our institutional orientation toward private or public interests. This will in general determine how that technology is implemented and what its effects on inequality will be.

Another alternative explanation of inequality that can at times be alarmist is the loss of manufacturing jobs overseas. In the last several decades the world has undergone a major industrial restructuring. Factories in developed countries have moved offshore, creating a simultaneous industrialization of less developed countries and deindustrialization of more developed countries. For these less developed countries, it implies they will experience the Kuznets curve, in which inequality climbs during early industrialization with the expectation that inequality will fall at some point in the future during late industrialization. For more developed countries, the argument of *The Great U-Turn* is that inequality will rise and has risen as the working class feels greater competitive pressure from abroad (Harrison and Bluestone 1988).

Much as the Kuznets curve is supposed to be temporary, deindustrialization would only really suggest a temporary shift in more developed countries, after which markets should adapt. With the loss of manufacturing, workers should eventually shift to the service sector, which in large part they have. The argument therefore depends on the assumption that the service sector is fundamentally more unequal.

Indeed, much like Kuznets' original argument, those who rue the loss of manufacturing forget the real source of quality jobs, outside of market forces. It is not that any particular economic sector is special, but those sectors with strong regulations and high union density tend to be the best quality. Imagine if Charles Dickens heard Bluestone and Harrison's (1982) plea for American reindustrialization to ensure better wages, job security, and more dignity for the working class!

As with globalization and technology, there is no compelling reason to expect that a shift to the service sector, *all things being equal*, would create greater inequality, and certainly not at the level seen in some countries like the United States. But many parts of the service sector have far less union density and labor regulations than the industrial sector, the latter of which successfully unionized after decades of brutally repressed but resilient labor struggles. In fact, union density has fallen inside the industrial sector too, so reindustrialization might slow rising inequality but it could not reverse it. The attack on organized labor is also not an isolated incident but part of a broader neoliberal agenda, an agenda that uses industrial restructuring to weaken organized labor rather than helping it transition to a new sector.

A fourth major argument is that due to economic transformations a new "creative class" has emerged, a highly skilled and educated elite for whom market demand has provided far greater bargaining power than a worker with average schooling. Often graduating from top universities, the creative class inflates the top of the income distribution causing inequality to increase.

There have always been workers with superior skills, credentials, and creativity who have thus been highly valued in the market. Like the other arguments about inequality, this one is dependent on the assumption that the economy experienced inevitable and profound transformations which have favored skills, education, and creativity. But has it been inevitable, or has it been a choice of those in power, turning to neoliberalism, to ensure that workers' incomes should be more heavily determined by the market?

Furthermore, with growing demand for skills, the population has responded by acquiring more education and human capital. Despite this rising inequality has only accelerated in many countries, like the United States, that have embraced neoliberalism. This explanation takes far too much for granted, missing the true underlying cause of inequality, and making economic transformation appear inevitable and impersonal rather than the result of political design.

Lastly a fifth explanation, popular among conservatives when they do address inequality, is that a loss of family values and female entry into the labor force are partly to blame (Murray 2012). The logic of this argument is that women cannot maintain a household on their own, and this is why inequality has risen, among other consequences these commentators find alarming. For the purpose of this paper, this means that women do not have the same earning power as men. And, with their disproportionate share of childcare, mothers cannot work as many hours as fathers can. However, although women everywhere average less income than men, in some countries women receive adequate support from the government to maintain a household. These government "handouts" have been criticized and reduced under neoliberalism, but reductions in social spending should then bear the blame rather than a purported "loss of family values."

While these five explanations have been very popular in mainstream intellectual discussions, I argue that they all fail to appreciate how much they are contingent on the rise of neoliberalism, which many of us simply take for granted and which I argue provides a more fundamental explanation. Neoliberalism emerged in the economic stagnation of the 1970s as a way for investors to revitalize falling profits and ensure a high return on investment during this turbulent time. It represents a shift away from a postwar Keynesian strategy of state intervention, domestic production, and public investment to a neoliberal, market-oriented strategy of economic liberalism, export-oriented growth, and privatization.

The ideology of economic freedom rose from obscurity at this time to justify the new elite consensus, promoted by theorists like Milton Friedman, think tanks like the Heritage Foundation, and lobbying groups like the Chamber of Commerce and Business Roundtable. Economists at the conservative Fraser Institute assert:

> In order to achieve [economic freedom], a country must provide secure protection of privately owned property, evenhanded enforcement of contracts, and a stable monetary environment. It also must keep taxes low, refrain from creating barriers to both domestic and international trade, and rely more fully on markets rather than the political process to allocate goods and resources. (Gwartney, Lawson, and Hall 2011:1)

Rising in popularity throughout the 1980s and 90s, this viewpoint contrasts sharply with that of the early postwar period, in which it was believed that only mixed economies with elements of both capitalism and socialism could be successful (Bell 1960). As neoliberalism came to be the dominant political economy, the more capitalist elements prevailed and markets were expected to solve all our national and global problems.

I expect that neoliberalism generates more inequality for three major reasons. First, since capitalism is a competitive system (especially for labor), incomes should become more dispersed as people win and lose in competition. Second, neoliberalism is much more beneficial to wealthier people whose income is dependent on capital gains given its focus on improving returns on investment—and conversely is harmful to labor because ensuring those returns most often means minimizing labor costs. Third, given that neoliberalism is an elite consensus without any public participation, these special interests would work to shape neoliberalism so as to benefit elites at the expense of the majority and ensure even greater elite domination.

I would also expect that as neoliberalism becomes more embedded in a country's institutions, ordinarily benign social trends such as globalization, technological advancement, industrial restructuring, human capital accumulation, and increased female employment become increasingly inegalitarian. This is essentially due to capitalist and market logic penetrating otherwise public, or at least publically oriented, social processes.

Past research has found many significant factors related to inequality in their own right. But if those effects are contingent on neoliberalism, such studies would obscure the underlying causal mechanisms. Instead, I propose in this paper to use interactions between neoliberalism and these other factors to examine these contingencies. In other words, the research question is if neoliberalism never arose, would we expect globalization, technology, and the other factors to be related to greater inequality at all, or would these associations be at least weaker than we know them today, if not reversed?

If international investment followed more of a Keynesian logic, or treaties were predominantly fair trade rather than free trade agreements, would globalization still matter for inequality, or would globalization actually be reducing inequality? Does the same hold true if technology was used for skill upgrading rather than to replace workers, or if service sector workers like those at Walmart had the same union density today as General Motors workers had in the 1950s and 60s?

If access to quality education was better guaranteed by the state, from elementary all the way to college and graduate school, then education could be the great equalizer it was always promised to be, rather than a source of stratification. And lastly, if women had better access to welfare and childcare subsidies, and there was better anti-discrimination regulation, would rising female employment be an economic problem at all? Neoliberalism moves us away from much of this government intervention and public orientation, and thus I argue it better explains why inequality is greater than it was before neoliberalism became embedded in so many institutions.

Operationalization and Data

Inequality is assessed here using the Standardized World Income Inequality Database (SWIID) compiled by Frederick Solt (2009). SWIID is presently the best available data set that covers a wide range of countries using single summary scores. It measures income inequality using Gini coefficients (a scale of 0 to 100 percent), and standardizes income definitions to match those of the Luxembourg Income Study.

This standardization process uses correlations between Gini coefficients that come from different income definitions, but for the same country and year, to fill in gaps for other countries. Hypothetically, if individual income led to a Gini coefficient two points lower on average than household income, SWIID would add two points to scores that use individual income to estimate household income scores. This would then give an estimate of household inequality for every country, and SWIID makes similar adjustments for several other aspects of income definitions.

The adjustment is a source of potential bias when scores differ by more than just a constant, but probably a bigger concern is that all the income data from SWIID is based on surveys. Top incomes are typically under-reported in surveys, if reported at all, so inequality is surely under-reported in SWIID as well. Neoliberalism most likely has a larger effect on top incomes, which means the use of SWIID data makes the findings in this paper somewhat conservative. In other words, better accounting of top incomes would probably strengthen the relationship between neoliberalism and inequality.

Theoretically, neoliberalism overlaps with economic globalization and industrial restructuring because the latter two have been integral strategies within the former. Measures for globalization especially have often been the same ones used for neoliberalism. As distinct from the alternative explanations, I therefore propose using the Economic Freedom (EF) index compiled by the Fraser Institute (Gwartney, Lawson, and Hall 2015) to measure neoliberalism. This index measures economic "freedom" across five dimensions: small government, an impartial legal system, a sound monetary framework, open trade, and a lack of regulation on business, credit, and labor.

The way the index calculates a summary score is somewhat arbitrary and ideologically motivated. To help correct for this, I use a four plus one variable model, referring to four factors that emerge from the index using factor analysis, as well as one important variable that is relatively unique to those four factors. I call the four factors legal protection of business rights, foreign investment attractiveness, inflation control, and liberal government. The unique variable measures low government ownership and investment, which I label government privatization (see Table 5 in the previous chapter for factor details and weightings). (DePhillips 2015)

For economic globalization on its own, I use two different measures: 1) foreign direct investment (FDI) as a percent of GDP from the World Bank (WB), which is one of the most commonly used measures of globalization (cf Bandelj and Mahutga 2010), and 2) the cumulative number of bilateral trade agreements (BTAs) signed by a country to capture integration into international trade regimes (DePhillips 2015).

For technological advancement, I use a composite measure of data from the WB. This includes the sum of four measures: telephone lines, mobile cellular subscriptions, internet users, and fixed broadband internet subscribers, all per 100 people. For deindustrialization I use service sector value added (VA) as percent of GDP, and for industrialization I use the agricultural VA, which leaves industrial VA as a reference category. This simultaneously captures the effect of both deindustrialization (service vs industry) and industrialization (industry vs agriculture[xxxiii]).

[xxxiii] Agricultural value-added would actually be agrarianization if industry is the reference category. Therefore I reverse the scale of agricultural VA, multiplying by

For education and human capital, I use the net enrollment rates for secondary education and for tertiary education. Basic levels of education, such as secondary school, have been shown to be associated with lower inequality. But when controlling for this, getting a higher education can have a large impact on skilled versus unskilled labor, perhaps exacerbating inequality. In addition, the benefits of basic education on inequality could be moderated by neoliberalism, especially its privatization dimension. Lastly, I use female labor force participation (percent 15 years and older) to examine the fifth alternative explanation of inequality. (Table 13)

Analytic Model

Past cross-national research has often used country fixed effects (FE) and random effects (RE) models, as well as others like generalized estimating equations (GEE). Country FE models are desirable because they eliminate all unobserved heterogeneity between countries, thus controlling for unobserved differences among them. But, this comes at great loss of explanatory power because there is substantial instructive variation between countries. RE and GEE models have the benefit of retaining a portion of this variation, increasing explanatory power. However, when differences arise between FE and the other models, interpretation can be problematic. This is because RE and GEE models retain an *unknown* portion of between-country variation.

To resolve the modelling issues, I use two separate models in tandem, a year fixed effects (YFE) model (capturing only between-country variation) and a country fixed effects (CFE) model (only within-country variation). The two models create a much

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negative one. An increase on the reversed scale would mean less agricultural VA to industrial, or in other words more industrial VA to agricultural.

Table 13. Operationalization for Contingency Models

Concept	Measurement	Mean	St.dev.	Min	Max	Transform	Source
Dependent Variable							
Income Inequality	Gini Coefficient	38.10	10.24	18.62	69.79	—	SWIID
Independent Variables							
Business Rights	Fraser Factor 1 (1995-2010)	1.075	0.436	-1.31	1.89	—	Fraser EF
Foreign Attractiveness	Fraser Factor 2	0.329	0.902	-1.65	1.83	—	Fraser EF
Inflation Control	Fraser Factor 3	0.188	0.887	-3.50	1.26	—	Fraser EF
Liberal Government	Fraser Factor 4	-0.048	0.943	-2.33	2.68	—	Fraser EF
Gov't Privitization	Government Own/Invest (Fraser 1c)	5.29	3.04	0	10.00	—	Fraser EF
Econ. Globalization	Foreign Direct Investment (vs GDP)	0.187	0.253	-0.147	5.44	Cube Root	World Bank
Econ. Globalization	Total # of BTAs signed (w/dummy)	21.29	26.76	0	155.0	Log	UNCTAD
Technology	Landlines, Cellphones, Internet, Broadband	13.01	18.23	0	80.19	Cube Root	World Bank
De-industrialization	Service Value Added vs Industrial	13.59	12.70	0.041	62.38	Log-Odds	World Bank
Industrialization	Industrial Value Added vs Agricultural	55.48	12.31	12.87	91.72	Log-Odds	World Bank
Basic Education	Net enrollment in secondary education	70.59	28.19	5.06	162.35	—	World Bank
Advanced Education	Net enrollment in tertiary education	28.85	22.87	0.298	103.87	Cube Root	World Bank
Female Employment	Labor force participation rate	40.33	19.45	9.20	89.80	—	World Bank

Table 13. (continued)

Concept	Measurement	Mean	St.dev.	Min	Max	Transform	Source
Controls							
Employment	Employment (% 15 and older)	57.67	8.14	30.80	86.90	—	World Bank
Young	Percent 14 and under (vs adults)	0.307	0.107	0.134	0.500	Log-Odds	World Bank
Elderly	Percent 65 and older (vs adults)	0.080	0.050	0.019	0.227	Log-Odds	World Bank
Country Size	Population (in millions)	53.20	148.0	0.217	1,300	Log	World Bank
Legal System	Old Fraser Index (V) (1970-1995)	2.68	3.05	0	9.10	—	Fraser EF
Economic Growth	Percent change in GDP per capita	0.072	0.140	-0.624	1.15	—	World Bank
Initial Level of Inequality	Earliest available gini coefficient	37.90	11.17	16.82	69.79	—	SWIID
World Region	Author's Categorization					—	—
Time	Year of Measurements			1970	2010	—	—
Econ. Development	GDP per capita w/ squared	8,700	12,800	81	112,000	Log	World Bank

Note: Descriptive statistics are calculated using untransformed variables for easier interpretation.

clearer and more interpretable contrast than past research. That is, YFE primarily represents deep institutional and cultural variation between countries, whereas CFE represents more immediate policy shifts and trends within them.

In this paper I start with two base multivariate models—YFE and CFE —that show the statistical association between neoliberalism and inequality, using the four-plus-one approach to measure neoliberalism and including the five alternative explanations. I then add interaction terms between the five neoliberal measures and the measures for the five alternative explanations in separate but parallel models. The interaction terms could not all be included in the same model because of problems with multicollinearity.

For brevity's sake, the table for the interaction models displays only the alternative explanation main effect and the corresponding interaction terms.[xxxiv] I expect to see positive interaction terms in the models. This would show that neoliberalism is strengthening initially positive associations with greater inequality, or weakening negative associations with inequality, or creating an association with greater inequality where there was little association to begin with. The value of the alternative explanation's main effect determines which scenario applies. To better examine how the effects of the five alternative explanations vary across levels of neoliberalism, I include supplementary tables comparing effects at one to two standard deviations above and below the mean for all five neoliberal dimensions.

[xxxiv] The full models are available on request. However, among unlisted coefficients there are effectively no changes in direction, and no changes in significance where the p-value is less than .01 in linear model.

Findings

In this section I outline the main findings for the regression analyses. I first discuss the linear models before discussing the interaction models. When comparing the YFE (between-country) model and the CFE (within-country) model, I suggest making a conceptual distinction. The YFE terms depend on deep institutional and cultural variations among countries, whereas the CFE terms depend on more superficial policy shifts. In addition, when some interactions with dimensions of economic liberalism are significant but not others, it suggests which dimension seems to be most critical in driving the alternative explanations toward greater inequality.

Linear Models

In the YFE linear model (Table 14) business rights, foreign attractiveness, liberal government, and government investment are positive and significant, while inflation control was significantly negative. This shows that neoliberalism is equivocally but mostly associated with greater inequality in its own right. As for alternative explanations, FDI was expectedly positive but BTAs was negative. Deindustrialization and industrialization were both positive. Technology, tertiary enrollment, and female labor however, were not significant, but secondary enrollment was expectedly negative. Of the alternative explanations then, industrial restructuring and global investment are the only ones that appear to have merit in their own right.

The CFE model showed fewer significant results. This is most likely due in part to having substantially less variation within countries than between them—indeed, less than one-seventh of the variation in inequality can be found within countries. This is why I argued CFE models alone are unsatisfactory. It could also be due to policy shifts having

Table 14. Semi-Standardized Linear Models of Income Inequality

Variable	YFE Model	p	CFE Model	p
Business Rights (F1)	1.386**	.004	1.555***	.000
Foreign Attract. (F2)	0.951***	.000	-0.809***	.000
Inflation Control (F3)	-1.308***	.000	-0.124	.286
Liberal Gov't (F4)	0.850***	.000	0.099	.446
Gov't Privatization (1c)	0.695***	.000	0.317**	.004
FDI	1.111***	.000	0.267	.055
BTAs	-0.726***	.000	0.149	.363
no BTAs dummy	-0.236	.536	-0.641	.064
Technology	0.635	.190	0.117	.625
Deindustrializing	0.456**	.009	0.512**	.010
Industrializing	0.514*	.040	-0.584	.108
Tertiary Enrollment	0.273	.258	0.390	.133
Secondary Enrollment	-0.516*	.022	0.100	.642
Female Labor Force	0.422	.184	-0.336	.219
Employment	-1.255***	.000	-0.143	.520
Young	0.758	.118	0.493	.344
Elderly	-2.179***	.000	1.374*	.025
Population	0.822***	.000	-5.648***	.001
Legal System (V)	-0.011	.924	0.228***	.001
Annual Growth	-0.189	.082	-0.167**	.006
GDP pc	-0.993*	.026	1.315**	.002
squared term	-0.916***	.000	-0.002	.989
Initial Inequality	0.386***	.000	*invariant*	
Year (in decades)	*invariant*		-1.081**	.006
Region (vs the West)				
East Asia	1.891***	.001	*invariant*	
LAC	5.211***	.000	*invariant*	
Eastern Europe	3.469***	.000	*invariant*	
Mid. East & N. Africa	-0.993	.106	*invariant*	
Sub-Sah. Africa	8.176***	.000	*invariant*	
R^2 within	.7953		.0787	
N	2642		2642	
R^2 w/o Init. Ineq. Portion	.1396			

a less robust effect on inequality than institutional and cultural differences. Nonetheless business rights as well as government investment is significantly positive, but foreign attractiveness is significantly negative. Among alternatives, only deindustrialization was significant, and it was positive as expected. This suggests that neoliberalism and industrial restructuring are the only explanations that appear to have some merit within countries as well.

It may also be worth noting that the year term is significantly negative within countries. This means that, all things being equal, inequality should have declined over time—by four points on the Gini scale over four decades, a sizable decline for a worldwide average that was about 38.3 in 1970. In contrast, a single predictor CFE model of inequality with only the decade term has a significant coefficient of .3598, meaning that in reality inequality has on average risen by about one and a third point over four decades.

YFE Interactions

The effects in the linear models can obscure the contingency effects of neoliberalism. In the between-country interaction model, most of the significant interaction terms are, as expected, positive (Table 15). Out of forty potential interactions, twenty-three are positive and only three are negative. This shows that neoliberalism tends to drive the alternatives toward greater inequality.

In terms of globalization, the effect of FDI is almost always positive, but becomes more strongly positive with greater levels of liberal government (Table 16). It also unexpectedly becomes weaker with greater business rights. The effect of BTAs on the other hand is almost always negative, but becomes weaker with higher scores on factors

Table 15. Between-Country Interaction Models, Semi-Standardized w/ Interactions Only

			Interactions with Economic Liberalism Factors									
			Business		Foreign		Inflation		Liberal		Gov't	
	Main		Rights		Attract.		Control		Gov't		Privatiz.	
Models	Effects	p	(F1)	p	(F2)	p	(F3)	p	(F4)	p	(1c)	p
FDI	1.354***	.000	-0.742***	.000	0.197	.173	0.255	.062	0.230*	.024	0.056	.661
BTAs	-1.090***	.000	-0.237	.258	0.788***	.000	0.802***	.000	0.652***	.000	0.195	.127
Technology	-0.769	.154	0.774*	.011	0.876***	.000	-0.023	.913	0.626***	.000	0.477***	.000
Deindustrializ.	-0.297	.177	0.867***	.000	1.085***	.000	-0.068	.628	0.316**	.003	0.122	.320
Industrializing	-0.178	.581	0.902***	.000	-0.348	.063	0.035	.833	0.107	.348	0.548***	.000
Tertiary Enroll.	-0.751**	.006	1.030***	.000	-0.114	.531	0.420**	.002	1.058***	.000	0.735***	.000
Second. Enroll.	-1.129***	.000	1.121***	.000	-0.230	.175	0.282	.071	0.790***	.000	0.561***	.000
Female Labor	0.922**	.009	-0.734*	.019	0.935***	.000	-0.290*	.012	0.271*	.015	0.348**	.003

Table 16. Between-Country Interaction Effects across EL Factors

	EL Z-score	Business Rights	Foreign Attract.	Inflation Control	Liberal Gov't	Gov't Privatiz.
Effect of FDI	(-2)	**2.84**	**0.96**	**0.84**	**0.89**	**1.24**
	(-1)	**2.10**	**1.16**	**1.10**	**1.12**	**1.30**
	(0)	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**
	(1)	**0.61**	**1.55**	**1.61**	**1.58**	**1.41**
	(2)	-0.13	**1.75**	**1.86**	**1.81**	**1.47**
Percent Positive		99.4*	100	100	100*	100
Effect of BTAs	(-2)	-0.62	-2.67	-2.69	-2.39	-1.48
	(-1)	-0.85	-1.88	-1.89	-1.74	-1.28
	(0)	-1.09	-1.09	-1.09	-1.09	-1.09
	(1)	-1.33	-0.30	-0.29	-0.44	-0.89
	(2)	-1.56	**0.49**	**0.51**	**0.21**	-0.70
Percent Positive		0	13.4*	0*	3.9*	0
Effect of Technology	(-2)	-2.32	-2.52	-0.72	-2.02	-1.72
	(-1)	-1.54	-1.64	-0.75	-1.40	-1.25
	(0)	-0.77	-0.77	-0.77	-0.77	-0.77
	(1)	**0.00**	**0.11**	-0.79	-0.14	-0.29
	(2)	**0.78**	**0.98**	-0.82	**0.48**	**0.19**
Percent Positive		29.3*	35.2*	0	9.5*	0*
Effect of Deindust.	(-2)	-2.03	-2.47	-0.16	-0.93	-0.54
	(-1)	-1.16	-1.38	-0.23	-0.61	-0.42
	(0)	-0.30	-0.30	-0.30	-0.30	-0.30
	(1)	**0.57**	**0.79**	-0.36	**0.02**	-0.17
	(2)	**1.44**	**1.87**	-0.43	**0.33**	-0.05
Percent Positive		49.8*	55.1*	0	15.4*	0

Table 16. (continued)

	EL Z-score	Business Rights	Foreign Attract.	Inflation Control	Liberal Gov't	Gov't Privatiz.
Effect of Industrial.	(-2)	-1.98	**0.52**	-0.25	-0.39	-1.27
	(-1)	-1.08	**0.17**	-0.21	-0.28	-0.73
	(0)	-0.18	-0.18	-0.18	-0.18	-0.18
	(1)	**0.72**	-0.53	-0.14	-0.07	**0.37**
	(2)	**1.63**	-0.87	-0.11	**0.04**	**0.92**
Percent Positive		50.4*	22.4	0	3.9	42.9*
Effect of Teritary Educ.	(-2)	-2.81	-0.52	-1.59	-2.87	-2.22
	(-1)	-1.78	-0.64	-1.17	-1.81	-1.49
	(0)	-0.75	-0.75	-0.75	-0.75	-0.75
	(1)	**0.28**	-0.86	-0.33	**0.31**	-0.02
	(2)	**1.31**	-0.98	**0.09**	**1.36**	**0.72**
Percent Positive		41.8*	0	0*	22.1*	13.6*
Effect of Second. Educ.	(-2)	-3.37	-0.67	-1.69	-2.71	-2.25
	(-1)	-2.25	-0.90	-1.41	-1.92	-1.69
	(0)	-1.13	-1.13	-1.13	-1.13	-1.13
	(1)	-0.01	-1.36	-0.85	-0.34	-0.57
	(2)	**1.11**	-1.59	-0.56	**0.45**	-0.01
Percent Positive		28.6*	0	0	6.6*	0*
Effect of Female Labor	(-2)	**2.39**	-0.95	**1.50**	**0.38**	**0.23**
	(-1)	**1.66**	-0.01	**1.21**	**0.65**	**0.57**
	(0)	**0.92**	**0.92**	**0.92**	**0.92**	**0.92**
	(1)	**0.19**	**1.86**	**0.63**	**1.19**	**1.27**
	(2)	-0.55	**2.79**	**0.34**	**1.46**	**1.62**
Percent Positive		82.7*	91.1*	100*	100*	100*

* Interaction term is significant at p = .05 level.

Bold numbers represent positive effects.

two, three, and four. For the most liberal countries in terms of foreign attractiveness (top 12 percent) BTAs actually become associated with greater inequality. The results for globalization illustrate the contingent effects I expected, strengthening positive effects on inequality or weakening negative ones.

Contrary to expectations, technology most often has an association with less inequality. However, in roughly the top third of cases by business rights and foreign attractiveness, as well as the top tenth by liberal government, technology becomes associated with greater inequality. Greater government privatization also significantly weakens the association between technology and less inequality.

At average levels of economic liberalism, neither deindustrialization nor industrialization have a significant association with inequality. Only with greater business rights (top 50%), foreign attractiveness (top 55%), and liberal government (top 15%) does deindustrialization become associated with greater inequality. With greater business rights (top 50%) and government privatization (top 43%), so too does industrialization. This shows that the effects of industrial restructuring are very contingent on neoliberalism.

Education is mostly associated with lower inequality, both for tertiary and secondary. However, greater inflation control weakens the effect of tertiary education, and the same is true of secondary education for more liberal government and privatization. With the highest levels of business rights (top 42 percent), liberal government (22 percent), and government privatization (14 percent), tertiary education becomes associated with greater inequality. Remarkably, in the top 29 percent of cases by business rights, even secondary education becomes positively associated with greater inequality.

Lastly in terms of female labor, countries with more women employed mainly have greater inequality. Contrary to expectations, the association is actually weakened by greater business rights and inflation control, becoming associated with less inequality in the top 17 percent of cases by business rights. However, this effect is also strengthened especially by greater levels of foreign attractiveness and by more liberal government and privatization.

CFE Interactions

In the within-country interaction model, most of the significant interaction terms are also positive, as expected (Table 17). Out of forty potential interactions, twenty-two are positive and only three are negative. This shows that within countries, the more neoliberal years are the ones where the alternative explanations are shifting toward associations with greater inequality.

In terms of globalization, the effect of FDI within countries is effectively zero at average levels of economic liberalism (Table 18). Only with greater levels of foreign attractiveness, inflation control, and liberal government does FDI become associated with greater inequality within countries. Unlike the YFE model, BTAs are not mostly associated with less inequality in the CFE model. BTAs do become associated with greater inequality at greater levels of foreign attractiveness, inflation control, and liberal government. Surprisingly, BTAs are associated with less inequality for cases with greater government privatization (top 72 percent), though that interaction controls for effects of the other positive interactions.

Table 17. Within-Country Interaction Models, Semi-Standardized w/ Interactions Only

			Interactions with Economic Liberalism Factors									
Models	Main Effects	p	Business Rights (F1)	p	Foreign Attract. (F2)	p	Inflation Control (F3)	p	Liberal Gov't (F4)	p	Gov't Privatiz. (1c)	p
FDI	0.035	.836	-0.180	.191	0.582***	.000	0.262*	.017	0.203*	.023	-0.047	.640
BTAs	-0.179	.305	0.267	.079	0.320*	.016	0.942***	.000	0.759***	.000	-0.294**	.004
Technology	-0.417	.126	0.539**	.004	0.295	.053	0.526**	.002	0.695***	.000	-0.133	.173
Deindustrializ.	0.436*	.048	0.836***	.000	-0.160	.352	0.820***	.000	0.787***	.000	0.060	.589
Industrializing	-1.680***	.000	0.648***	.000	-0.342*	.047	0.497***	.000	0.798***	.000	-0.133	.277
Tertiary Enroll.	-0.517	.059	0.691***	.000	-0.024	.882	0.524***	.000	0.762***	.000	0.123	.234
Second. Enroll.	-0.654**	.009	0.678***	.000	0.014	.926	0.567***	.000	0.575***	.000	0.205	.051
Female Labor	-0.244	.396	-0.333	.123	0.521***	.000	-0.187*	.031	0.129	.161	-0.017	.857

Table 18. Within-Country Interaction Effects across EL Factors

	EL Z-score	Business Rights	Foreign Attract.	Inflation Control	Liberal Gov't	Gov't Privatiz.
Effect of FDI	(-2)	**0.39**	-1.13	-0.49	-0.37	**0.13**
	(-1)	**0.21**	-0.55	-0.23	-0.17	**0.08**
	(0)	**0.04**	**0.04**	**0.04**	**0.04**	**0.04**
	(1)	-0.14	**0.62**	**0.30**	**0.24**	-0.01
	(2)	-0.32	**1.20**	**0.56**	**0.44**	-0.06
Percent Positive		49.6	64.8*	77.1*	56.3*	72.4
Effect of BTAs	(-2)	-0.71	-0.82	-2.06	-1.70	**0.41**
	(-1)	-0.45	-0.50	-1.12	-0.94	**0.11**
	(0)	-0.18	-0.18	-0.18	-0.18	-0.18
	(1)	**0.09**	**0.14**	**0.76**	**0.58**	-0.47
	(2)	**0.36**	**0.46**	**1.70**	**1.34**	-0.77
Percent Positive		43.6	44.1*	65.3*	37.9*	28.0*
Effect of Technol.	(-2)	-1.49	-1.01	-1.47	-1.81	-0.15
	(-1)	-0.96	-0.71	-0.94	-1.11	-0.28
	(0)	-0.42	-0.42	-0.42	-0.42	-0.42
	(1)	**0.12**	-0.12	**0.11**	**0.28**	-0.55
	(2)	**0.66**	**0.17**	**0.64**	**0.97**	-0.68
Percent Positive		39.7*	12.3	20.9*	25.2*	0
Effect of Deindust.	(-2)	-1.24	**0.76**	-1.20	-1.14	**0.32**
	(-1)	-0.40	**0.60**	-0.38	-0.35	**0.38**
	(0)	**0.44**	**0.44**	**0.44**	**0.44**	**0.44**
	(1)	**1.27**	**0.28**	**1.26**	**1.22**	**0.50**
	(2)	**2.11**	**0.12**	**2.08**	**2.01**	**0.56**
Percent Positive		58.7*	100	84.8*	70.5*	100

Table 18. (continued)

	EL Z-score	Business Rights	Foreign Attract.	Inflation Control	Liberal Gov't	Gov't Privatiz.
Effect of Industr.	(-2)	-2.98	-1.00	-2.67	-3.28	-1.41
	(-1)	-2.33	-1.34	-2.18	-2.48	-1.55
	(0)	-1.68	-1.68	-1.68	-1.68	-1.68
	(1)	-1.03	-2.02	-1.18	-0.88	-1.81
	(2)	-0.38	-2.36	-0.69	-0.08	-1.95
Percent Positive		0.2*	0*	0*	0.7*	0
Effect of Teritary Educ.	(-2)	-1.90	-0.47	-1.57	-2.04	-0.76
	(-1)	-1.21	-0.49	-1.04	-1.28	-0.64
	(0)	-0.52	-0.52	-0.52	-0.52	-0.52
	(1)	**0.17**	-0.54	**0.01**	**0.25**	-0.39
	(2)	**0.87**	-0.57	**0.53**	**1.01**	-0.27
Percent Positive		41.1*	0	12.0*	23.0*	0
Effect of Second. Educ.	(-2)	-2.01	-0.68	-1.79	-1.81	-1.06
	(-1)	-1.33	-0.67	-1.22	-1.23	-0.86
	(0)	-0.65	-0.65	-0.65	-0.65	-0.65
	(1)	**0.02**	-0.64	-0.09	-0.08	-0.45
	(2)	**0.70**	-0.63	**0.48**	**0.50**	-0.25
Percent Positive		30.8*	0	3.7*	11.4*	0
Effect of Female Labor	(-2)	**0.42**	-1.29	**0.13**	-0.50	-0.21
	(-1)	**0.09**	-0.77	-0.06	-0.37	-0.23
	(0)	-0.24	-0.24	-0.24	-0.24	-0.24
	(1)	-0.58	**0.28**	-0.43	-0.11	-0.26
	(2)	-0.91	**0.80**	-0.62	**0.01**	-0.28
Percent Positive		29.4	48.0*	8.4*	1.7	0

* Interaction term is significant at p = .05 level.

Bold numbers represent positive effects.

As with technological advancement between countries, only in a minority of cases is technology associated with greater inequality. These cases include higher levels of business rights (top 40 percent), inflation control (top 21), and liberal government (top 25). This again shows the effect of technology is contingent on higher levels of neoliberalism.

Unlike between countries, deindustrialization within countries is significantly positive at average levels of economic liberalism. This effect strengthens at greater levels of business rights, inflation control, and liberal government. Industrialization within countries, surprisingly, actually is strongly negative at average levels of economic liberalism. This effect is substantially weakened with greater business rights and liberal government, and to a lesser extent greater inflation control, but actually strengthened with greater foreign attractiveness. Effectively though, industrialization in the CFE model never has an association with greater inequality.

Like in the YFE model, both education terms here are associated with less inequality at average levels of economic liberalism. The effect of secondary education, though, is weakened with greater inflation control. At greater levels of business rights (top 41 percent), inflation control (top 12), and liberal government (top 23), tertiary education becomes associated with greater inequality. Remarkably again, in the top 31 percent of cases by business rights and top 11 percent of cases by liberal government, secondary education also becomes associated with greater inequality. Again we see the effect of education is contingent on neoliberalism.

Lastly in terms of female labor force participation within countries, there is little association with inequality at average levels of economic liberalism, unlike between countries. However with greater foreign attractiveness, female labor becomes associated with greater inequality. Surprisingly, with greater inflation control the association is with less inequality. It is also surprising that unlike in the YFE model, the interactions with liberal government and privatization are not significant here, only foreign attractiveness.

Discussion

The linear models showed that neoliberalism appears to offer a more effective explanation of inequality on its own. This relationship was somewhat equivocal with a negative term for inflation control between countries and for foreign investment attractiveness within them. Taken together though, neoliberalism's effects tended to be stronger and more robust than the alternatives, both between and within countries.

Additionally, the interaction models showed that many of the alternatives' relationships with greater inequality were contingent on neoliberalism. There were many significant positive interaction terms and few negative ones, and in many cases the alternative explanation was only positively associated with inequality for above average levels of economic liberalism. In other words, without rising economic liberalism scores, many of the alternatives might not lead to greater inequality at all. This doubly suggests that neoliberalism is a more fundamental explanation of rising inequality than the alternatives, despite their apparently undue popularity.

The advantage of the multi-dimensional approach to neoliberalism also is that it gives a more nuanced interpretation, showing which aspects seem to matter most for creating the contingent effects of alternative explanations. The liberal government factor is probably most salient in this regard. The interactions show us that more liberal government has exacerbated inequality through the many seemingly distinct processes of the alternative explanations. Business rights was also very salient for technology, industrial restructuring, and education, likewise exacerbating inequality through these processes. Surprisingly, it was foreign attractiveness and not liberal government that mattered most for female labor, despite the effect of government payments and labor regulation on women's income. This suggests that as far as female employment and inequality are concerned, foreign competition appears to have a bigger impact than government intervention.

Interaction terms for the other dimensions of neoliberalism varied by the type of variation analyzed. In using both YFE and CFE models in tandem I have argued that the comparisons are conceptually clearer than the ones of past research. I suggested that between-country variation (YFE) represents deep institutional and cultural variation between countries, whereas within-country variation (CFE) represents more superficial policy shifts and trends. This can be seen in the predictive power of the models because the YFE models generally have an R^2 much larger than the CFE models. The linear CFE model also had fewer significant terms.

The major differences between nonlinear models for the two types of variation can be seen in which dimensions of EL have the most significant interactions in the expected positive direction. Specifically, for YFE inflation control was by far the least robust, while for CFE government privatization and foreign attractiveness were. This suggests that countries with more inflation control institutionally tend not to exacerbate inequality's relationship with the alternative explanations, while countries more economically liberal on the other dimensions do. It also suggests that policy shifts and trends over time within countries that make them more privatized or more attractive to foreign investment also do not exacerbate inequality in that way, while such shifts toward economic liberalism in the other dimensions do.

Conclusion

The evidence presented here shows that neoliberalism is one of the best explanations of rising inequality in its own right, due to its stronger and more robust predictors. It also shows that neoliberalism explains the apparent validity or lack of validity for alternative explanations. That is, greater inequality from globalization, technology, industrial restructuring, education, and female employment is often contingent on relatively high levels of economic liberalism.

Overall then, if economies around the world had not become so embedded with neoliberalism, it is very unlikely that inequality would have risen at all, and it may well have fallen. With lower economic liberalism scores in many countries, the model would predict substantially less inequality. Furthermore, lower EL scores would push many of the alternative explanations toward generating less inequality. This is true despite major economic transformations like globalization and technological advancement, which could have been forces for greater equality had they not been so heavily designed and incorporated to benefit the interests of the wealthy and privileged.

This research has analytic implications for anyone who uses longitudinal data. It demonstrates the advantage of purely separating between- and within-country variation in fixed effects models. Empirically it also provides a useful way to measure neoliberalism as distinct from globalization and industrial restructuring. This then allows for examining contingencies.

Theoretically, it also calls into to question sweeping or alarmist claims about how globalization, technology, or other trends might exacerbate inequality. All social change, even great economic transformations, occurs within particular systemic and institutional contexts. Without this context, it is difficult to make sense of any consequences that change will bring. Moreover, if institutions change, then the expected consequences could be altered.

Indeed, many early proponents promised that globalization would bring about not only greater prosperity but greater opportunities for people around the world, and thus lower global inequality. Without global barriers, workers could focus on their comparative advantage, and countries could find greater sources of investment for growth. Few people today believe this has actually happened. But globalization could still live up to its potential, if only investment occurred in the context of widespread government intervention to ensure shared prosperity, and if only trade agreements protected labor rights instead of intellectual property rights or created courts where consumers could sue corporations instead of corporations suing governments.

Likewise, technology does not have to be a source of inequality. In an institutional environment where profits are paramount, technology has helped replace labor and weaken collective bargaining. But in an environment where management and labor cooperate to adopt new technology that benefits everyone, worker skills can instead be upgraded, and the middle class becomes enlarged rather than hollowed.

It took a long time for the industrial sector to provide decent wages and job security. Without having to face the brutal class repression of the late 19th and early 20th Centuries, even the lower-skilled end of the service sector today can do the same, and more easily. Minimum wage increases are a step in this direction, but the unionization of industries like retail and fast food will more effectively ensure middle class standards of living. The neoliberal attack on labor must therefore be rolled back if inequality is to be seriously reduced.

President Obama like many has called for greater investment in education to alleviate inequality. But Obama has also tentatively supported the charter school movement and the No Child Left Behind Act. This research suggests that such an investment in education could actually exacerbate inequality, unless neoliberalism is addressed with equal commitment. In other words, the privatization and corporatization of colleges and secondary schools needs to be reversed if education is to be a great equalizer in the 21st Century.

Lastly, women's market income may always be lower than men's, but that does not mean that women's livelihoods, or that of their families, must be dependent on the market alone. Government intervention can help minimize sex disparities in pay and can supplement mother's income to the point that a female-headed household suffers no disadvantage. Neoliberalism, however, would have to be abandoned in order for this intervention to be embraced. We cannot simply assume that the market benevolently ascribes to everyone what they deserve.

With more democratic decision making, it is unlikely that many countries would have faced the economic challenges of the late 20th Century by turning to neoliberalism in the first place, as the world's elites did with gusto, completely ignoring the lessons of the past. Since the financial collapse of 2008 and the Great Recession, unconditional bailouts, harsh austerity measures, and generous quantitative easing, following the widely held neoliberal logic of elites, have become the norm. It will be difficult for elites to learn the lessons of this new crisis, but public pressure and protest might compel them to embrace change. There is still plenty of time to press for a more equitable consensus to face the economic challenges of the 21st Century.

CHAPTER 7

CONCLUSION

> Freedom is not merely the opportunity to do as one pleases; neither is it merely the opportunity to choose between set alternatives. Freedom is, first of all, the chance to formulate the available choices, to argue over them—and then, the opportunity to choose.
>
> —C. Wright Mills

Speaking to the Internet public in an interview with *Vox Media*, President Obama could not provide a simple answer to question of why inequality has risen (Klein 2015). He discussed “a whole bunch of reasons” that, despite the President’s lucid and informal speaking style, probably overwhelmed the general audience, failing to imply any obvious way forward. His first two topics were technology and globalization, both of which were portrayed as apolitical trends. It would be a commendable effort in reaching out to the public if such a list of factors was the best explanation we have, but this research shows that there is a simpler and a better one which Obama not surprisingly overlooked.

The scholarly literature on inequality provides a similar explanation to the President’s. Globalization, skill-biased technological change, industrial restructuring, skill premiums, deunionization, tax reform, declining social spending, and winner-take-all politics appear to be the most popular reasons for rising inequality among scholars today. These factors together have a great deal of explanatory power but are often treated as competing or unrelated explanations. I argued and demonstrated empirically that many of them are instead complementary as part of the broader trend of neoliberalism.

Moreover, the detrimental effects of those that are not strictly a part of neoliberalism, like technology, are not universal effects but are dependent on neoliberal political economy. In addition, even studies that consider various aspects of neoliberal policy often ignore the elephant in the room—major economic and social decisions are made outside the democratic political process by a small power elite that owns and controls most of the major influential institutions in the world. This dissertation was undertaken to fill these theoretical and ideological gaps.

The research also addressed a number of methodological weaknesses in the literature. For one, past studies had to rely on poor quality data. For this project I used the best data around today, data which is substantially higher in quality than what was previously available. In addition, I further developed the operationalization of neoliberalism, a concept which has been discussed widely but defined poorly and measured in a narrow way that does not capture its full breadth.

Lastly, I argued that past data analyses have not properly handled between-country variation and its causal implications. The models have in this way either eliminated or curtailed the variation that really showcases the institutional differences between countries and what it can teach us about inequality. This project develops a simple, dual-model alternative that preserves this information more purely. A century and a half ago, philosophers like Marx often considered the big questions at the expense of the smaller ones, calling for no less than complete revolution. Today the study of inequality, with its focus on within-country variation and moderate policy recommendation, does the opposite. This often comes at the expense of much-needed systemic change, which is better shown across countries than across time.

There are some limitations to these research findings, which I reviewed in the third chapter. One limitation is that cross-national data is not as strong as it could be. I have used the latest available data, which is better than what virtually all past studies have had to rely upon, and data will continue to improve over time. Secondly, the data is observational and so causation is never guaranteed, but statistical controls help provide sufficient confidence. Lastly, this study focuses on household income inequality within countries, but there are many other important dimensions to social inequality, such as international inequality, wealth inequality, immaterial disparities, and even genuine economic freedom.

I presented my research on the relationship between neoliberalism and inequality in three empirical chapters. The first defined and operationalized neoliberalism. It helped show through correlation analysis that various, seemingly distinct trends are really multiple interdependent strategies of the greater neoliberal project. These included economic liberalization, deindustrialization, the precariousness of labor, the globalization of investment and trade, dependency, and the privatization of social services.

Furthermore, these neoliberal strategies showed enough statistical independence to support a multidimensional approach to operationalizing neoliberalism, rather than compressing all the data down to a single metric. Unfortunately, current data availability and validity was lacking on some dimensions, which were later dropped from the analysis, especially for labor precariousness. However, the Economic Freedom index proved an invaluable resource, from which four major dimensions were extracted—the protection of business rights, international investment attractiveness, inflation control, and liberal government. Government ownership and investment was largely unique from these four factors, and was included in later analysis since a major strategy of neoliberalism has been privatization.

Using these dimensions and several statistical controls, the second piece of research analyzed the variation in inequality, both between- and within-countries. It showed that more deeply instituted neoliberalism has a relatively robust relationship with greater inequality and that it appears to offer a better overall explanation today than previously significant factors of inequality. The comparison of year- and country-fixed effects models showed that both types of analysis have their strengths and weaknesses, and neither always tells exactly the same story. To extol the second and ignore the first is a mistake often made by past research. Indeed, the between-country model was stronger overall and had more explanatory power.

The second empirical chapter went on to explore the direct nonlinear effects of neoliberalism on inequality. Generally, this showed that more developed countries had a stronger association between various neoliberal dimensions and greater inequality. I discussed many possible reasons, but I think one stands out. In the course of development, countries have created many institutions that protect against capitalism's suppression of all but upper class incomes. In weakening and even dismantling these institutions, neoliberalism generates more inequality than it would in countries without these institutions. In short, more prosperous countries have more to lose when adopting market mechanisms.

The quadratic effects meanwhile generally showed that at low levels of neoliberalism the relationship sometimes reversed, creating a U-shaped curve that was typically centered somewhat left of the mean. In other words, greater neoliberalism tends to lead to less inequality in countries that had little neoliberal embeddedness at the start. I suspect this is related to the fact that very low scores of neoliberalism occur in highly underdeveloped countries that usually suffer from serious state corruption, which translates into greater income inequality. In such cases, moving away from a corrupt state and toward market institutions generates relatively less inequality. However, I would note that the empirical results suggest that a better strategy than increasing neoliberalism would be to minimize state corruption and maximize state capacity. The much lower levels of inequality in more developed countries, where states are less corrupt but far larger, attest to this reasoning.

Starting from the same basic regression model, the third piece of research focused on the contingency effect of neoliberalism. It asks whether five major alternative explanations of inequality show consistent effects across high, medium, and low levels of neoliberalism. These include globalization, technological advancement, industrial restructuring, human capital or job skills, and female employment. In other words, are their effects contingent on neoliberalism?

In general, the analysis showed that the alternatives are strongly contingent in the expected direction. Greater levels of neoliberalism drive many ordinarily benign trends and processes toward greater inequality. Remarkably, even basic education, long thought to be the great equalizer, can actually exacerbate inequality at high levels of neoliberalism. In fact, at average levels of neoliberalism, the alternatives mostly had weak relationships to inequality. Below the average, many supposed explanations of rising inequality actually appeared to generate less inequality—that is, inequality was lower where and when neoliberalism was less embedded.

The primary methodological implications of this research are two-fold. First, the operationalization of neoliberalism necessarily requires a multi-dimensional approach. In other words, it is difficult to capture it with a single metric. This was argued in Chapter 4 and had both a theoretical and empirical basis. Theoretically, neoliberalism involves many distinct and far-reaching strategies for revitalizing and maintaining capital accumulation since the 1970s, and each needs to be recognized. A broad view is therefore needed to ensure measurement of all aspects of neoliberalism. Empirically, the dimensions have some shared variation but partial independence, suggesting they might be part of a broader trend but are also affected by their own internal logic that prevents collapsing measures completely into a single dimension. This may preclude an unequivocal effect that can be ascribed to neoliberalism, as some dimensions may have different or even opposite effects as others, but the overall picture can still be discernible with some nuance remaining.

The second methodological implication concerns the analysis of cross-national data. Chapters 5 and 6 demonstrated that between-country variation is very important and between-country effects had relatively more predictive power. Within-country variation has the advantage of controlling for between-country heterogeneity, but comes at the cost of the data's full explanatory potential. The dual model approach preserves both kinds of variation and separates them purely and simply, and the comparison of models can also help with causal interpretability. Future research into neoliberalism should keep in mind the first implication about measurement, but this second implication applies to all longitudinal data analysis, not just for countries.

Future research also needs to develop a better framework for understanding neoliberalism to clarify what has really happened over the past few decades around the world. The question of rising inequality is often obscured by inadequate theoretical perspectives like globalization, free market economics, or electoral politics and public policy. This research instead emphasizes the decisions of those in power and what affect they have had on the distribution of income. Without such theoretical clarity, reducing inequality will be problematic.

Future research could also focus more attention on specific cases rather than cross-national data. This would trade the generalizability of global data for the level of detail that could be addressed by the researcher. Ideally, pairs of countries with similar historical circumstances, levels of global integration, and technological advancement but with different levels of neoliberalism could be compared. If the argument holds, the more neoliberal country will not only have more inequality, but globalization, technology, and other factors will also be associated with rising inequality only for the more neoliberal country and not the other.

As data for inequality continues to improve, a more nuanced approach could be taken for the analysis of the dependent variable as well. Shorrocks and Slottje (2002) suggested that income inequality really had three basic dimensions: the size of top incomes, the income share of the poor, and the amount of divergence for the rest of the population in the middle. The Luxembourg Income Study, covering the 30 wealthiest countries, already appears to have data sufficient for this task. Regarding neoliberalism, surely the size of top incomes would be expected to show the strongest association. However, with its attack on the welfare state and its exploitation of globalization and technology to "hollow out the middle class," neoliberalism would be expected to increase inequality in these two dimensions as well.

The implications of this research for reform are far-reaching, including not only public policy but national and global political economy. President Obama came to office in the middle of the Great Recession. He was elected mere months after the financial crisis in the fall of 2008, promising hope and change. Arguably the most important first act of his presidency was choosing his team of economic advisors. Instead of choosing an economist critical of the neoliberal policies that had led to the recent economic catastrophe, like Paul Krugman or Joseph Stiglitz, Obama appointed Lawrence Summers as Director of the National Economic Council.

Summers is a major proponent of neoliberalism and financial deregulation, who also happens to have been run out of both Harvard and the World Bank for controversial statements he made at the time.[xxxv] The President thinks very highly of Summers, who was also his favorite to replace Ben Bernanke as Chair of the Federal Reserve, until massive public opposition forced the President to appoint Janet Yellen instead.

Even Bloomberg, hardly a left-wing news publication, commented at the time of Obama's inauguration that many of his economic advisors, rather than occupying enormously influential positions of power at a critical economic juncture, should instead be receiving subpoenas for their roles in various corporate scandals and crimes (Weil

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[xxxv] At Harvard, he made some sexist remarks in a speech to alumni, but at the World Bank a leaked internal memo led to his downfall that is worth mentioning here. Summers advised that the dumping of highly toxic pollutants off the shores of poor countries like Somalia should continue because it makes economic sense. He argued that with lower life expectancies, the carcinogenic effects would have less of an impact than they would in wealthier countries. The reasoning was called "insane" by a Brazilian official. For what it's worth, I think it has three fatally flawed assumptions: 1) that poor countries will never develop and have longer life expectancies, 2) that toxic dumping will not inhibit these countries' development, and most importantly 3) that toxic dumping needs to continue at all when it only benefits a small number of extremely wealthy multinational corporations.

2008). On the whole, the Obama presidency has been a disappointing one for many of those who put him into office. In the previous chapter, I cited the President’s own report that observed the recovery since the Great Recession has been concentrated almost exclusively among top incomes. The “middle class” has been left behind, the report concluded. But, it only recommended future actions and did not criticize its own administration for having overseen and contributed to such a lopsided recovery.

Meanwhile, Obama has felt growing pressure from both the left and the right for his unwavering support of the Trans-Pacific Partnership (TPP) free trade agreement. He acknowledges globalization’s effect on inequality but not the role he plays in furthering that kind of economic integration. Indeed, this research shows that it is really only this particular kind of globalization that leads to significantly more inequality, of which, in its present form, the TPP is a prime example. A similar contingency effect can be seen in many other trends.

As one remedy for skyrocketing inequality, President Obama is working toward free community college available to all. But my research suggests that this could actually lead to greater inequality. The corporatization of colleges and universities, as well as the privatization of basic education, is turning school into a source of disparity rather than equality. These trends must be reversed if greater education levels are to be expected to help create a decline in inequality, as they have in the past.

From this research, unlike the President’s rhetoric, the way forward is much clearer. Neoliberalism needs to be rolled back if inequality is going to decline to any substantial degree in the future. This includes:

1. More government investment and socialization of important economic sectors
2. Greater social spending, welfare protection, and taxing of the wealthy
3. Less export-oriented production, as well as protection of infant industry from foreign competition and greater development investment for less developed countries, and greater flexicurity and social insurance for more developed ones
4. Monetary policy designed in the interest of full employment and economic growth and not simply inflation control
5. Legal systems that protect workers and consumers rather than private investors

More than this, countries' entire political economies need to move away from a market-orientation and toward the public interest.

To be sure, the findings were not unequivocal. Business rights, government spending, foreign direct investment, and privatization were almost exclusively associated with inequality. This suggests that they can be rolled back without any unintended consequences. This was not the case for inflation control, foreign investment attractiveness, and bilateral trade agreements, which at times had significant associations with less inequality. Here, perhaps, some caution is in order. After all, the case against neoliberalism does not mean that inflation should be uncontrolled or that contries should not attract any foreign investment or sign free trade agreements.

As a matter of fact, organized labor was not as opposed to free trade and supportive of protectionism as the mainstream media portrayed them to be during NAFTA negotions in the early 1990s. They were simply opposed to the specific version of NAFTA that Clinton had negotiated, largely without Congressional oversight. The

Labor Advisory Committee (LAC) recommended many changes to the agreement to protect the rights of consumers, workers, and the environment, as opposed to the virtually exclusive protection of investors' rights in the existing document. On the chapter that provides "strong protection for the holders of patents and copyrights," the LAC notes that "[t]hese measures stand in sharp contrast to complete absence of provisions protecting labor rights and standards" (LAC 1992:21).

On how NAFTA was likely to affect the economic interests of the country, the LAC commented that its members are

> painfully aware that serious discussions over the policies needed to address the economic impact of international trade and investment all too frequently degenerate into a debate between so-called free trade and protectionism. For the Committee, the overriding issue in these discussions is not free trade versus protection, open markets versus closed markets, or more investment versus less. Rather, the LAC believes that it is necessary to judge economic ties among nations by how they affect the lives of ordinary citizens. If increased trade among nations results in economic growth, we are concerned with who will benefit—the tiny number of people on the top rungs of the economic ladder or the vast number of workers on the bottom and middle rungs. And we do not believe that Americans must choose between economic autarky and an unrestrained international free market. The issue is not whether the United States should be engaged internationally. Rather, the issue is how to structure this engagement so that the benefits of economic activity are equitably distributed. (2)

The overall findings of this dissertation would likewise suggest that instead of blanket protectionism, it is how neoliberalism has sought to control inflation, attract investment, and create free trade regimes that needs to be addressed.

According to this research, rolling back neoliberalism will almost certainly create less inequality in the world. But, it will also press other ongoing processes to become more egalitarian. Globalization, technological advancement, industrial restructuring, skill premiums, and women's entry into the labor force would be expected to also help drive down inequality after neoliberalism. This is essentially the reverse of today.

How to accomplish such reform is no easy task. Liberal economist Robert Reich (2014) outlines ten "practical steps" to address inequality that counteract neoliberalism:

1. Raise the minimum wage—pegging it to inflation—and expand the Earned Income Tax Credit
2. Unionize low-wage workers
3. Invest more in education and make it affordable to everyone
4. Invest more in infrastructure, including public transportation, Internet access, and water and power utilities
5. Pay for these investments with a higher top marginal tax rate and by closing tax loopholes
6. Make the payroll tax more progressive and eliminate the Social Security Wage Base which prevents taxing incomes above $118,500 (2015 rate)
7. Raise the estate tax
8. Resurrect the Glass-Steagal Act in full and cap the size of the nation's biggest banks
9. Give every American an "opportunity share," a diversified index of stocks and bonds that would compound over time
10. Reverse the Citizen's United decision and move toward public financing of elections

Similarly, David M. Kotz (2015) foresees a possible future of regulated capitalism, in which there is greater social spending, enforcement of anti-trust laws, greater collective bargaining, and increased financial regulation. Another liberal economist, Paul Krugman (2009) has also endorsed a financial transactions tax that would deter speculation and generate substantial revenue. Even Lawrence Summers co-authored a study (1989) that suggested such a tax would have beneficial effects, though unsurprisingly it never materialized during his tenure with the Clinton administration or the World Bank.

Indeed, policy-oriented research often portrays the problem as simply needing smarter decision-making, as if the world's leaders were unaware of the consequences of their actions. In fact, coinciding with the passage of NAFTA, President Clinton militarized the U.S.-Mexico border through Operation Gatekeeper, attempting to minimize illegal immigration. Clinton knew full well the agreement would devastate Mexico's rural farmers, who would flee to the U.S. *en masse* looking for employment. If economic refugees were protected by international law the way political ones are, Clinton's move could have been seen as criminal.

In their short-sightedness, however, leaders probably were unaware that neoliberalism would eventually lead to economic crisis and stagnation, as well as the social unrest that follows. This does indeed concern the power elite, unlike rising inequality up until now, but so far it has not led to systemic change. A future crisis may change their minds, but if we wish to ensure that future decisions are more egalitarian, we must move toward greater democratic accountability. As I surmised in the last two chapters, it is unlikely that the public would have ever approved of neoliberalism in the first place.

More troubling is that if elites do not unviel an appealing alternative to neoliberalism soon, a conservative backlash could gain momemtum. Arguably, this has already happened with the campaign of Donald Trump and the recent British vote to leave the European Union. Much of the energy behind these political movements comes from dissatisfaction with economic globalization and neoliberalism, ignorantly targeting foreigners and government bureaucracy rather than the rich who have primarily benefited from these developments.

The actual implications for policy of such events is unclear, and appears to represent more of a wreckless protest vote than anything else. However, what happened in Europe during the Great Depression, the last time capitalism collapsed, looms ominously over world politics today. Some comfort can be taken that even a Donald Trump presidency, despite what some of his critics might say, is not at all like Germany electing Hitler as chancellor in 1932. The world has come a long way since then, but growing unrest could present an enormous challenge to the international system that was mostly developed after those disastrous years to ensure some semblance of world peace and international justice. Some comfort can also be taken in the fact that progressives are much better organized, in many countries and globally, than they were in the 1930s.

The quote at the beginning of this chapter argues that real economic freedom will only result from greater public participation in decision-making, which could provide a more serious alternative to neoliberalism than reactionary popular unrest. Commenting on the irony of the Reagan administration in retrospect, William Kleinknecht writes:

> With his incessant claim that reducing government intervention in the economy would return us to the good times of the midcentury, Reagan was conveniently forgetting that America's prosperity had reached its highest levels at a time when government activism—the legacy of Progressivism and the New Deal—was also at its peak. America came out of World War II with the common man a hero, the welfare state firmly ensconced, and the influence of labor unions at an all-time high. (2009:xix)

Kleinknecht goes on, commenting on the lasting effect of the "Reagan Revolution":

> It has become received wisdom, even among many liberals, that the U.S. government, which waged war simultaneously in the Atlantic and Pacific in the 1940s, rebuilt the industrial capacity of Europe and Japan in the 1950s, developed railroads, the computer, the nuclear bomb and the Internet, and put a man on the moon, is a morass of inefficient bureaucrats that cannot be trusted to solve any of the domestic problems facing the United States in the twenty-first century. (35)

Although there were tremendous accomplishments, we should be careful not to glorify the past too much. Keynesianism may have allowed for greater worker influence in the postwar years than neoliberalism does today, but labor never seriously took part in decision-making, and neither did the general public. Inequality was also lower in the postwar years, but still scandalously high. In 1972, Jencks et al. wrote, "Americans are by no means universally committed to economic equality, but we doubt that most of them think the richest 5 percent of all families should have incomes 25 times as large as the poorest 5 percent" (264).

Such inequality seems quaint by today's standards, but public opinion nevertheless remains misinformed and largely irrelevant to politics. While the actual CEO to worker pay ratio is something like 350:1, Americans today think it is only 30:1, about what the ratio was in the 1960s. Jencks et al. were likely correct in their judgment, since Americans today find even 30:1 to be unfair and believe it should be more like 7:1 (Kiatpongsan and Norton 2014). Poverty, too, has been resistant to eradication despite massive government efforts.[xxxvi] Not to mention the foreign policy that results when elites rule without question, as seen throughout the Cold War and since (Chomsky 1992).

Addressing inequality today requires greater democratic participation, both in politics and the economy. The research and arguments in this dissertation support this claim, and so too I think will future research into neoliberalism and inequality. As Plutarch understood, “An imbalance between rich and poor is the oldest and most fatal ailment of republics.” In the assessment of neoliberalism in Chapter 2, I outlined several alternatives to neoliberalism, those both friendly and unfriendly to capitalism. These included social democracy, Reich’s opportunity shares, worker- and community-owned enterprises, cooperatives, credit unions, and public trust funds, as well as government ownership and investment. These alternatives can challenge neoliberalism and likely lower inequality in the process.

The neoliberal sentiments noted by Kleinknecht cannot last forever. Krugman’s “cycles of conventional wisdom” from the introductory chapter will surely continue. Laissez-faire has been abandoned twice before in the U.S., when the Progressive era and the Keynesian era began. As Mark Twain once purportedly quipped, “History doesn’t repeat itself but it often rhymes.” Until elites come to recognize their folly, the public

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[xxxvi] In the United States, this is plainly true of absolute poverty. Today there are roughly 50 million starving or “food insecure” people in the U.S., about 16 million of whom are children. In social democracies like Sweden and Denmark, government assistance minimizes absolute poverty. But as long as there is inequality, relative poverty will never go away. Indeed, Scandinavian countries have hardly been immune from the effects of neoliberalism, as with other countries made all the more clear since 2008.

needs to push for greater political and economic democracy to roll back neoliberalism and reign in rampant inequality. And when elites finally do change their minds, claiming once again that now at last they truly understand how to make capitalism work for all, the public needs to push for democracy even harder, or history will keep on rhyming.

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