NEOLIBERAL DYNAMICS - IMPERIAL DYNAMICS
Preliminary draft

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Introduction

It is always difficult to locate with precision the origin of a complex phenomenon such as the new phase of capitalism, known as *neoliberalism*. The decision, in 1979, by the Federal Reserve to increase interest rates at any level required to curb inflation can, however, be considered as an emblematic event testifying of a deep transformation in the dynamics of capitalism. This was a political move that we call the *1979 coup*. Subsequently, and during now more than twenty years, neoliberalism has defined a new course of capitalism, at the center as well as at the periphery. It seems now clear, however, that the year 2000 marked a significant break, with the devastating crisis in Argentina (its economical, social, and political aspects), the recession in the US, the decline of the stock market after so many years of craze... These symptoms of a significant transformation were considerably strengthened by the shock of September 11, 2001, and the wars in Afganistan and Iraq. New political and military trends now echo the changes in the economy, and it is difficult to treat separately these various components of a multifaceted reality.

This paper discusses the nature of this new phase, which combines, on the one hand, the recession in the main capitalist countries, the stock market crisis, the continuing violence of neoliberal crises at the periphery and, on the other hand, the new aggressive course of imperialism under US hegemony. Do such trends mark the end of neoliberalism and in what sense? On the contrary, do they foreshadow a strengthening of the neoliberal order? How do the neoliberal and imperial traits relate to one another?

The first section is devoted to the general framework of analysis. To discuss the possible emergence of a new phase of neoliberalism and imperialism, it is first necessary to return to basic *definitions*. Does neoliberalism refer to the freedom of markets, to deregulation, to the dwindling role of the state? What are its social foundations in terms of classes and power? What is the link between the notion and those of *globalization*, *imperialism*, and *hegemony*, etc.?

The perspective in the following section is that of economics, with some technicality. A special emphasis is placed on the major capitalist countries: Europe, to some extent, but primarily the US. Obviously, the paper does not do justice to the complex mechanisms of the world economy. Indeed, a similar investigation would be required concerning the situations of Japan and countries of the periphery. The US are not any country, however, and we believe the emerging tensions in the macroeconomy of this country and its structural relations to the rest of the world are crucial factors which shape the new course of capitalism.

1. Section 2.1 describes the basic economic features of neoliberalism as they can be identified in the US as well as in Europe: the trends of technological change, income distribution, and accumulation.

2. On the contrary, section 2.2 is devoted to the specific traits of the US economy, made possible by its hegemonic position within global imperialism: basically, its patterns of consumption and debt, as well as its relation to the rest of the world.

3. Section 2.3 discusses the profile of the macroeconomy during the second half of the 1990s and early 2000s: the boom and the recession (in particular in the US, but also in Europe). How does these events fit in the new phase of capitalism?

Section 3 is devoted to the dynamics of neoliberalism, specifically, of *neoliberalism under US hegemony*, as discussed in the previous sections. This is the most difficult question, since the future is at issue. Section 3.1 provides summarizes the major economic dimensions of the problem. Section 3.2 addresses, in a more straightforward manner, the definition of possible scenarios.

1 - Classes, states, and markets

1.1 Neoliberalism as financial hegemony

Neoliberalism can be defined as a specific *power configuration* within capitalism, in which the *power and income* of the *upper fractions of ruling classes* have been restored after a *period of decline*. It can be described as a new *financial hegemony*. The notion of "power configuration" must be understood within the general framework of the history of human societies, traditionally labelled as *historical materialism*. Its basic principles directly inform our analysis (box 1).

The power and income of the upper, financial, fractions of ruling classes had been diminished in the wake of the Great Depression and World War II. During the *Keynesian compromise* (between the war and the late 1970s), the managers of private corporations (in the management of their firms) and public officials (in the definition of policies) developed more autonomous behaviors, in which the power and privileges of owners were considerably diminished, though not radically offset. Growth, employment, and technical progress tended to become rather autonomous targets independently of the remuneration of ownership (in dividends and interest). In some countries, such as Europe and Japan, and countries of the periphery, alternative frameworks, often labeled "mixed economy", were implemented, and proved very efficient. In some cases, the property of entire sectors of the economy was transferred to the state. A large fraction of profits remained within firms and was invested productively. The profitability of financial institutions was typically low (in particular in the context of the public ownership of financial institutions). The US underwent similar transformations but to considerably lower extent than Europe or Japan.

The policies enacted during the structural crisis of the 1970s and the rise of inflation encroached considerably on the income and wealth of ruling classes. This can be easily understood in a situation where real interest rates were practically equal to zero or negative, profits and dividends were low, and the stock market depressed. Since World War II, the one percent richest fraction of households in the US used to hold more than 30% of the total wealth in the country; during the first half of the 1970s, this percentage had fallen to 22%. Neoliberalism was a political coup aimed at the restoration of these privileges. *In this sense, it was highly successful.*

The power relations characteristic of neoliberalism are sometimes described, or have been described in a recent past, as a *dictatorship of lenders* or a *capitalism of shareholders*. Besides the tautological feature of the latter expression, the two aspects of the capitalist social relation, lending and shareholding, are both at issue. There is, in some sense,

a contradiction between the two, since profits paid out as interest are not available for dividends payments, but capitalists or their financial institution "own" capital, in the broad sense of the term, under the two forms, in various combinations, as very clearly shown in neoliberalism. More than conflicting, the two channels must be seen as complementary tools in the hands of ruling classes.[1]

1.2 Neoliberalism, markets, (de)regulation, and states

Deregulation and free markets must be understood as *tools* in this transformation, not as aims. States remain the expressions of the prevailing power configurations (box 1). Their role vis-à-vis the economy was altered but not suppressed.

Although the freedom to act of enterprises with respect to the environment and employment was increased, regulation was also augmented in important respects. The *Deregulation and Monetary Control Act* of 1980 provides a very telling example of such ambivalence: Besides allowing for a number of financial innovations, it considerably strengthened the control of the Federal Reserve on the financial sector and, therefore, on the economy. This was a crucial component of the framework in which the very strict monetary policy curbed the accelerating inflationary trends. It is important to stress that neoliberalism did not destroyed the institutions of Keynesian macroeconomics (monetary and even budget policies), but redirected them to the benefit of ruling classes (in particular by ensuring price stability and largely positive real interest rates, instead of full employment).

The role of *deregulation* was central concerning international commercial and financial markets, in relation to the gradual alteration of the Bretton Woods order. As in the case of domestic macroeconomics, the institutions of Bretton Woods were not demolished but their activity was redirected toward the extension of neoliberalism to the entire planet, as clearly shown by the policy packages of the International Monetary Fund (IMF).

As is well known, two aspects can be distinguished: commercial and financial. Although the free circulation of goods and capitals can have quite stimulating effects among economies of similar levels of development and efficiency (as within the European Union), they can have devastating consequences when barriers are lifted between countries of unequal levels (such as, for example, between the US and countries of Latin America). Keynes had perfectly understood that the conduct of monetary policy and, more generally, development policies, was incompatible with the free international mobility of capital.[2] Though

1. It is for this reason that Marx classified the holders of loans and the holders of shares, under the same category of "lenders", as opposed to active capitalists or their salaried substitutes, the managers.

2. Keynes linked the "power to control the domestic rate of interest so as to secure cheap money" to capital controls: "Not merely as a feature of the transition, but as a permanent arrangement, the plan [the Bretton Woods agreements] accords to every member government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox" (J.M. Keynes, "Bretton Woods and After, April 1944-March 1946" (1944), *The Collected Writings of John Maynard Keynes, Vol. XXVI*, p. 17, London: Macmillan, St Martin's Press for the Royal Economic Society, 1980). See also J.M. Keynes, *National Self-Sufficiency, The Collected Writings of John Maynard Keynes, Vol. XXI, p. 233-246*, London: Macmillan, St Martin's Press for the Royal Economic Society, 1933, J. Crotty, "On Keynes and Capital Flight", *Journal of Economic Literature*, XXI (1983), p. 59-65, and E. Helleiner, *States and the Reemergence of Global Finance. From Bretton Woods to the 1990s*, Ithaca: Cornell University Press, 1994.

1 - Classes and states - Power configurations - Finance

Within capitalism, the owners of the means of production unambiguously define the ruling class, but this ownership prevails under various and changing institutional forms: from (1) the individual or family ownership of enterprises, where management was directly under the control of the owners, to (2) the financial (mediated by the holding of securities) ownership of corporations, where management is delegated to salaried workers (managerial and clerical personnel), and where the power of owners is concentrated within financial institutions. Various fractions can be distinguished among capitalists depending on their involment (as active capitalist or mere suppliers of funds), their field of investment (manufacturing, trade, finance...), their proximity vis-à-vis financial institutions, their wealth (small and large), etc. We call *finance* the upper fractions of capitalist classes and the institutions through which their power is expressed. (Finance, in this definition, must be distinguished from the financial industry or sector).

Besides productive workers, from which surplus-value is extracted, the separation between ownership and management led to the rise of the new classes of managerial and clerical personnel (within the private sectors, paralleled by a similar assertion within the public sector). The division of tasks among these groups — with the concentration of initiative and decision, at the one end, and execution, at the other — defines a new class relationship, supplementing the traditional class contradiction between capitalists and productive workers, and partially merging with it (in the sense that the position of employees and productive workers within relations of production tend to converge). From the combination of these two class contradictions and the existence of (old and new) intermediate classes follows the complexity of class patterns within contemporary capitalism.

The state, within this theory of social relations, is the institution in which the power of ruling classes is shaped and by which it is imposed as such. In a "democracy", within a class society, the power of ruling classes relies on compromises between the various fractions of capitalists and other classes (typically with middle classes). We call *power configuration*, the pattern in which the power of ruling classes is expressed within such compromises. These patterns change over time. For example, the rise of neoliberalism destroyed what is often called the *Keynesian compromise*. It corresponded to a broad compromise among wage earners, at the center of which were managers; finance was repressed (to different degrees depending on the countries) but still alive and active. Neoliberalism also corresponds to such a power configuration, with its own compromises (notably with the upper fractions of managers and the intermediate classes holding securites in pension funds).

These distinctions are related but do not coincide with the theory of *managerial capitalism*. The term was first coined to designate the new role of managerial (and clerical) personnel within corporations and, gradually, public administrations (local and central). This role grew within the framework of the first financial hegemony, from the beginning of the 20th century to the Great Depression. In a second phase, it reached new degrees and forms after World War II, during the *Keynenesian compromise*. The terminology *managerial capitalism* sounds inappropriate when applied to neoliberalism, since the discipline of owners was imposed with new strength to management (both concerning enterprises and policies). But managerial and clerical personnel more than ever perform their tasks: (1) within corporations (the maximizing of the profit rate); (2) within financial institutions (as the agents of finance, maximizing the profit rate in a different manner, and draining income flows toward ruling classes); (3) in the public sector.

capital controls were part of the Bretton Woods agreements, they were never fully recognized as a permanent and, in some sense, "normal" device.[3]

It is often contended that the autonomy of the various states has been considerably diminished within neoliberalism. It is, in a sense, correct, but it is important to keep the

3. G. Duménil, D. Lévy, From Prosperity to Neoliberalism. Europe before and after the Structural Crisis of the 1970s, Cepremap, Modem, Paris, 2002.

following observations in mind:

1. The diminished capability of states to conduct autonomous economic policies, such as within the European Union, is the outcome of the sovereign decision by these states to subject themselves to a common discipline. Obviously, these decisions reflect the interest of fractions of ruling classes, but there is nothing puzzling in this observation, since states are not autonomous entities (box 1).

2. In conformity with the above statement, the analysis of the historical assertion of the neoliberal order stresses the crucial role played by states.

1.3 Neoliberalism, globalization, imperialism, and hegemony

The financial hegemony, as in neoliberalism, corresponds to the new functionings of capitalism *both domestically and internationally*. Therefore, a distinction must be maintained between neoliberalism and globalization. Even domestically, the neoliberal order is manifested in the discipline imposed to labor and management, and the new flows of income toward finance. The same is true internationally, though, as recalled above, free trade and the free movements of capital are crucial in the present functionings and transformation of the world economy. The issue is presently the *globalization of neoliberalism*, *i.e.*, the extension of the hunting ground of international capital.

By *imperialism*, we do not mean a stage of capitalism, as in Lenin's analysis[4], but the relationship of subordination and exploitation which links the major capitalist countries to those of the periphery. (Imperialism itself undergoes successive stages in relation to the economical, social, and political features of the countries of the center and the periphery in each epoch of capitalism.) This domination and exploitation — whose field is the international economy, and in which the interests of the ruling classes of each country are expressed by what remains "their" states — interacts with domestic patterns of exploitation in various configurations that we cannot discuss here.

The system of imperialism also underwent important transformations. The major advanced capitalist countries are all engaged, under US hegemony, in the preservation of their privileges in the World Economy. Since World War II, this imperial rule was expressed in constant and multifaceted actions, marked by two specific features: (1) the preservation and then unravelling traditional colonial patterns of domination and (2) the cold war. The disappearance of these two elements considerably modified and, in a sense, clarified the fundamental nature of imperialism.

We give to *hegemony* a more precise meaning (which echoes the historical antecedent of the league of Delos in ancient Greece) than that of *domination*. Imperialism is not the fact of a single country (the US) but collective and hierarchic, in its relationship to other less developed countries and given the contradictions within the group of imperialist countries. This is what we precisely mean by *hegemony*. The leadership is ensured by the US and its grasp over the periphery is combined with a form of inter-imperialist domination within the group of imperialist countries. (Obviously, the two levels of dominations are distinct in degrees and forms.) This is a simple framework of analysis, but crucial in the understanding of contemporary international power relationships.

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4. V.I. Lenin, *Imperialism, The Highest Stage of Capitalism*, Peking: Foreign Language Press, 1973, 1916.

Incidentally, note that, referring to *financial hegemony*, we give the same content to the notion, that of a two-tier domination process: the domination of finance over all capitalist classes and the collective rule over other classes.

There are obviously political and military aspects to imperialism and hegemony, and this issue relates to the autonomy of the various states around the planet. Within international institutions, such as the United Nations, or military structures such as NATO, the hierarchy of powers is very strict. The US control to a large extent the military power of Europe, and make constants efforts to secure such a coordinated military efficient order in various regions of the world, as in South America.

Although the definitions are distinct, there are obvious links between the various mechanisms. A straightforward illustration of this statement is that globalization, under its present forms, is a central aspect of neoliberalism. In a more subtle manner, it must be emphasized that, that besides the fall of the soviet block, the assertion of neoliberalism was a major factor of the strengthening of US hegemony. Within the triad, both Europe and Japan have been more affected than the US by the new course of capitalism. (This is due to structural reasons, notably the existence in Europe and Japan of models of development more at odds with neoliberal patterns: state intervention, importance of loans in the financing of investment, etc.)

1.4 Implications concerning the dynamics of neoliberalism

The use of the term *neoliberalism* is so widespread that it is difficult to seek an alternative label. The implicit reference to "free markets", is ambiguous. On the one hand, state intervention and regulation has been crucial in the implementation of neoliberalism, and is still so in its present functioning. On the other hand, free international trade and circulation of capitals are essential features of neoliberalism.

In the discussion of the transformations of neoliberalism and a possible new stage (or the superseding of neoliberalism), it is important to approach neoliberalism as a power configuration. This is its most fundamental characterization: Will the upper fractions of ruling classes be able to maintain their preeminence? Will they preserve the income flows that they have established to their benefit? If so, through which mechanisms? Or will the social power relations be altered? The preservation of the privileges of these classes might require considerable reregulation, in the fields where deregulation had been achieved, without modifying the social nature of the new order. In such a case, the term could be judged even more inappropriate, but the fundamental social nature of the power configuration would be conserved.

2 - The economics of neoliberalism

This section is made of three sections dealing with the analysis of neoliberalism, mostly on economic grounds. A broad set of observations and mechanisms are considered. The major findings are summarized in box 2.

2 - The economics of neoliberalism

2.1 - Neoliberalism: Major traits common to Europe and the US

2.1.1 - Neoliberalism coincided (from the mid-1980s onward) with the assertion of technological and distributional trends more favorable to enterprises.
2.1.2 - Neoliberalism created new income flows in favor of capitalist owners.
2.1.3 - The new corporate governance and the transfer of profits to the wealthiest classes was detrimental to accumulation.

2.2 - The imperial way: The US hegemony

2.2.1 - Large flows of income are at issue within international relationships.
2.2.2 - The US benefit from their key position in the asymmetrical process of (1) exploiting the rest of the world and (2) supplying income to international capital.
2.2.3 - The growing external deficits gradually erode the benefits of the asymmetrical yield on international holdings.
2.2.4 - The deteriorating position (in particular the growing debt) of the US vis-à-vis the rest of the world is the effect of a dramatic wave of consumption by rich households.
2.2.5 - The growing indebtedness of households was made possible by the intervention of the state.

2.3 - The neoliberal-hegemonic mix: Hypertrophying the cycle

2.3.1 - The boom during the second half of the 1990s was rather exceptional in duration and the recession is severe in several respects.
2.3.2 - The active credit policy of the state both stimulated the boom and, to date, limited the severity of the recession.
2.3.3 - The long boom was financed by the unusual flow of foreign capital (expression of US hegemony) and new borrowings.
2.3.4 - The boom was interrupted by the decline of the profit rate due to the rise of the labor cost in relation to tensions on the labor market and the continuation of the rise of the burden of interest.
2.3.5 - The long boom culminated in the stock-market bubble in line with earlier neoliberal trends.
2.3.6 - The correction is severe for each aspects of earlier excesses (investment, borrowings by enterprises, and flows of foreign capital), including the collapse of the stock market and financial turmoil, but the debts of households and of the country are still growing.

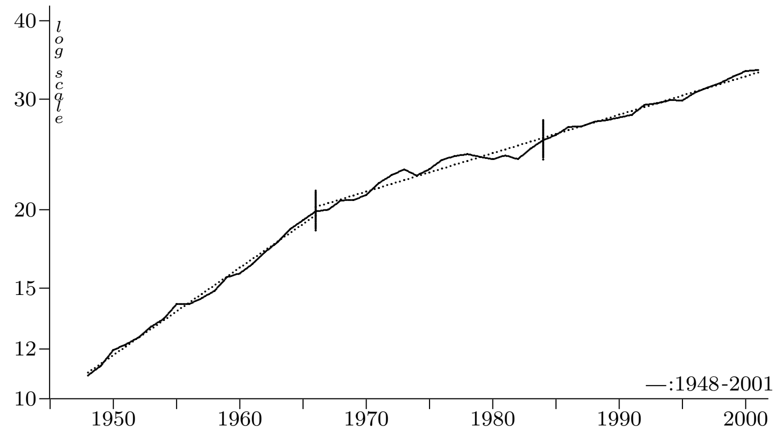
2.1 Neoliberalism: Major traits common to Europe and the US

The first of the three economic sections is devoted to the features of neoliberalism common to the US and Europe, Japan being different from the US to an even broader extent than Europe.

2.1.1 Neoliberalism coincided (from the mid-1980s onward) with the assertion of technological and distributional trends more favorable to enterprises.

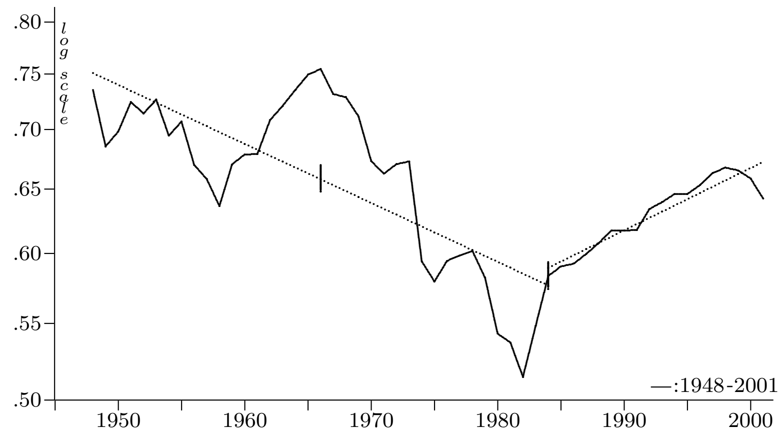
The features of technical change are crucial factors in the evolution of capitalism. They

Figure 1 Labor productivity: US, private economy



The variable is NDP in 1996 dollars per hour of labor.
Source: NIPA (BEA).

Figure 2 Capital productivity: US, private economy



The variable is the NDP divided by the stock of fixed capital, both in current dollars.
Source: NIPA (BEA); Fixed Assets Tables (BEA).

can be more or less "favorable", and determine the fundamental conditions of the formation of income.[5] The division of total income between labor compensation and profits results in more or less favorable trends of wages and profit rates depending on the profile of technical change. We will successively consider labor productivity, capital productivity, and the profit rate.

Figures 1 and 2 provide measures of labor productivity (Net Domestic Product or NDP, in constant dollars, per hour) and the NDP per dollar of capital (both in current dollars), that we denote as *capital productivity*. The unit of analysis is the US private nonresidential economy (later denoted as US private economy):

1. Abstracting from the impact of recessions, labor productivity, in figure 1, manifests a constant upward trend, though at different rates. While labor productivity increased rapidly during the first decades after World War II (a growth rate of 3.1% along the first trend line in the figure), the average growth rate is lower from the late 1960s onward (1.4% along the second trend line).

2. Conversely, a succession of periods of increase and decline are observed in the profile of capital productivity, as in figure 2. Considering the period 1948-1984 globally[6], a first phase of decline is apparent. Then, from 1984 onward, a new upward trend is manifested.

3. Combining the two variables, three periods can be identified with 1965 and 1984 as transition years. The second period appears particularly unfavorable, since the productivity of labor grows slowly, in comparison with the first period, and capital productivity declines. These trends shaped the conditions of the structural crisis of the 1970s. In spite of the continuing slow growth of labor productivity, *the third period, the decades of neoliberalism, reveal an upward trend of capital productivity.*

Similar movements were observed in Europe, at least within the three countries: France, Germany and the United Kingdom, considered globally.

Beginning with the crisis of the 1970s, the growth rate of the labor cost was significantly reduced. Thus, the combination of the restoration of capital productivity and this slower grow rate of the labor cost resulted in a new upward trend of the profit rate, defined as the ratio of profits (before the payment of interest, taxes, and dividends) to the stock of fixed capital. This new rise sharply contrasts with the earlier downward trend. This is shown in figure 3, where estimates of profit rates in this definition are displayed for the US and the aggregate of the three European countries. *Overall, the two neoliberal decades appear as a period of restoration of the profit rate.*

The followings are noteworthy. First, the upward trend was particularly strong in Europe. Second, the movement was interrupted in 1997 in the US. We will return to this recent development in section 2.3.4.

We interpret the rise of capital productivity as the effect of an increase of managerial (technological-organizational) efficiency, which echoes that of the late 19th century and

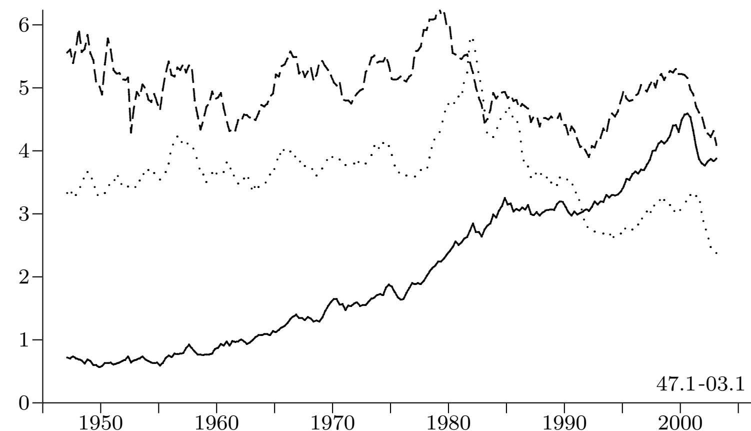
5. By *favorable*, we only refer to the dynamics of capitalism according to its own rules of functionning. The paper completely abstracts from basic issues such as the future of humanity and the planet earth.
6. It would be possible to contend that capital productivity fluctuated around a rather constant level from 1948 to the late 1960s, before declining sharply.

Figure 3 Profit rate (%): Europe and US, private economy

United States: (——); Europe: (-·-·-)

Europe refers to the three countries: Germany, France, and the United Kingdom. The profit rate is the ratio of a broad measure of profits (output minus the total compensation of labor) to the fixed capital stock, net of depreciation. Thus, indirect and profit taxes, interest, and dividends are still included within profits.
Source: NIPA (BEA); Fixed Assets Tables (BEA); OECD.

Figure 4 Ratio of various components of gross investment to the Gross Domestic Product (GDP) (quarterly data, %): US, private economy



Equipment in information and communication technology: (——); Other equipment: (— —); Nonresidential structures: (·········)

The sum of the three components is equal to total nonresidential investment.
Source: NIPA (BEA).

the first decades of the 20th century.[7] One factor was the implementation of the new technologies of information, computation, and communication, typically the technologies of management. The rise of these equipments within total nonresidential investment was very sharp. This is shown in figure 4 which describes the variation of the ratio of various components of investment to GDP in the US, separating between information and communication equipment and other components. Information and communication investment represents now about one half of total investment in equipment. (Although this ratio declined during the 2000 recession, it shows the first signs of stabilization at the bottom of the recession.)

It is difficult to estimate to what degrees neoliberalism contributed to the assertion of these new trends in technology and distribution that are basically the outcome of a managerial efficiency. Neoliberalism is clearly at issue in the formation of the new financial patterns of ownership (mergers and acquisitions) and the imposition of a stricter discipline on labor and management, targeted to increased profitability.[8]

2.1.2 Neoliberalism created new income flows in favor of capitalist owners.

As stated in section 1.1, neoliberalism restored the income of capitalist classes by draining large income flows toward the owners of securities in the context of low inflation rates. This was first evident in what we call the *1979 coup*, the sudden rise of interest rates. Figure 5 shows the profile of long-term real (that is, corrected for inflation) interest rates in the US and France.[9]

Several observations can be made. First, the overall profile is very similar in the two countries. Second, the rise after 1979 was dramatic, substituting largely positive rates for the very low rates of the 1970s. Third, contrary to what is often thought, large long-term real interest rates remain a characteristic feature of neoliberalism, up to the present. This is also true of short-term interest rates, but the difference is that these rates diminish strongly during periods of contraction of the growth rates, in particular during recessions. (Thus, short-term real interest rates are very low during the 2000 recession, and still declining in 2003, but nothing proves that such rates will be maintained.)

The rates plotted in figure 5 concern enterprises (with the best rating), but the burden of large interest rates was also placed on the state, households, and indebted countries of the periphery. A large stream of income was, thus, created to the advantage of lenders: rich households or financial institutions.

A similar evolution was observed concerning the distribution of dividends. This is clearly illustrated in figure 6, which shows the share of profits distributed as dividends in the two countries. Thus, there was two simple reasons for the low dividends flows during the 1970s: profits were depressed (figure 3) and only a small fraction was paid out (figure

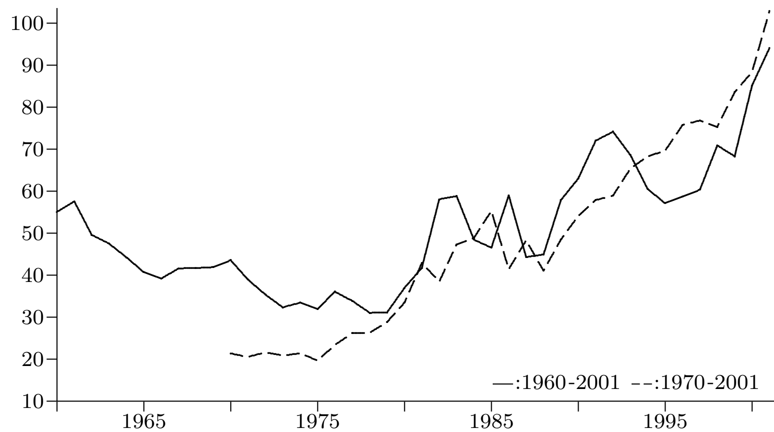
7. The managerial revolution occurred, in combination with the corporate revolution, at the transition between the 19th and 20th century. It was at the origin of a similar rise of capital productivity. Apparently interrupted by the Great Depression, the crisis accelerated this movement. Capital productivity culminated after World War II. See G. Duménil, D. Lévy, "Costs and Benefits of Neoliberalism. A class analysis", *Review of International Political Economy*, 8 (2001), p. 578-607.
8. In such an investigation, it would, however, be necessary to discuss what could have been the potential of alternative frameworks, and why they did not prevail.
9. For simplicity, we limit the comparison with the US, concerning financial mechanisms, to France, instead of the three European countries.

Figure 5 Long-term interest rate (quarterly data, %): France and US

United States: (——); France: (− −)

These are rates charged to the best rated corporations (AAA).
Source: Federal Reserve; OECD.

Figure 6 Share of profits distributed as dividends (%): France and US, nonfinancial corporations



United States: (——); France: (− −)

Source: French National Accounts (INSEE);NIPA (BEA).

6). In 2001, nearly the totality of profits remaining after the payment of taxes and interest are paid out to shareholders!

Simultaneously to this lavish remuneration of ownership, the stock market rose in outstanding proportions. This is demonstrated in figure 22 for the US. The ratio of equities at market value to the net worth of nonfinancial corporations (known as Tobin's q) peaked at 1.2 during the second half of the 1960s, fell to 0.42 during the structural crisis of the 1970s (at the end of the decade), before soaring to 1.77 at the beginning of 2000! (The ensuing fall will be discussed in section 2.3.) This rise of the stock market index was not specific to the US: Exactly the same movement was observed in France (as well as in the United Kingdom and Germany).

These income flows and capital gains are basic features of neoliberalism, common to the US and Europe. They are the manifestation of the power relations described in section 1.1.

2.1.3 The new corporate governance and the transfer of profits to the wealthiest classes was detrimental to accumulation.

The rates of accumulation (the growth rates of the stock of fixed capital, more precisely, the ratio of net investment to the stock of capital, also net of depreciation) considerably diminished during the structural crisis of the 1970s and were not restored during the decades of neoliberalism. (For simplicity, we will only discuss this phenomenon for corporations, and in France instead of the three European countries.)

The rates of accumulation of corporations are displayed (——) in figures 7 for France, and 8 for the US. The scale on the vertical axis are identical for comparison (box 3). The following are noteworthy:

1. The main point at issue here is the decline of accumulation rates in both countries. *Low rates prevailed during the 1980s, and to some extent during the 1990s.*

2. In the US, however, the boom during the second half of the 1990s represents a dramatic restoration, analyzed in section 2.3. A smaller rise is also apparent for France, though limited.

This is a puzzling observation: It could have been expected that the interruption of the decline of the profit rate and the new upward trend, as documented in figure 3, result in larger accumulation rates.

The most straightforward way of accounting for the dynamics of accumulation is to examine the relationship between the rate of accumulation and the *rate of retained profits*. By this latter notion, we mean the ratio of profits after all payments — taxes, interest, and dividends — to a measure of capital. (Since the perspective here is that of profitability from a "financial" viewpoint, instead of fixed capital as in figure 3, we measure capital by the *net worth* of corporations, that is total assets minus debt.[10])

It is worth comparing these profit rates with those shown in figure 3. In both instances, the recovery observed since the mid-1980s in figure 3 disappears in the rates of retained profits. The burden of taxation was actually alleviated, and the absence of recovery of profit rates can be imputed to the effect of interest and dividend payments documented in figures 5 and 6: profits were transferred to capitalists classes.

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10. All capital gains, in particular those related to the devaluation of the debt by inflation, are included in this measure of the profit rate.

Figure 7 Rate of retained profits and accumulation rate (%): France, nonfinancial corporations

Accumulation rate: (——); Rate of retained profits: (– –)

Source: French National Accounts (INSEE).

Figure 8 Same variables: US, non financial corporations

Accumulation rate: (——); Rate of retained profits: (– –)

The profit rate in the US has been normalized to the level of the accumulation rate in 1965, that is multiplied by 0.66. The data for France are as they originally result from the calculation. Source: NIPA (BEA).

3 - Accumulation and growth
France and the US

Figures 7, for France, and 8, for the US, only consider the rates of accumulation of non-financial corporations. A first observation is that the fall of the rate of accumulation in France was dramatic in comparison to the US. In 1980, the rates were about the same. Since then, the two rates fluctuate around similar levels. During the period 1986-1994, the accumulation rate of corporations was considerably larger in France. Then the rate became larger in the US during the late 1990s.
These observations do not coincide with the well-known stylized facts concerning growth in the two countries. Two differences are at issue. First, we deal with accumulation rate instead of growth rates. Second, the growth rates of nonfinancial corporations is different and larger than that of the total economy. This phenomenon is complex due to the strong alteration of relative prices between the two sectors.

The link between the rate of accumulation and the rate of retained profits appears very strong:

1. In the case of France, in figure 7, the two variables remain practically equal and, therefore, display the same trend downward. Accumulation kept in line with these depressed profit rates. This define a crucial feature of neoliberalism.

2. Concerning the US, in figure 8, a similar parallel movement prevailed until the second half of the 1990s. (In the figure, the rate of profit was multiplied by 0.66 to adjust the levels.) The main finding is, therefore, that, as in France, the same causes produced the same effects: Low rates of retained profits result in low rates of accumulation, independently of the movement of profit rates as in figure 3. (The later exception during the late 1990s becomes all the more striking.)

There is nothing obvious in the fact that the transfer of profits to lenders and shareholders should hamper accumulation. But everything happens within neoliberalism *as if* it were so: These profit are not ploughed back into nonfinancial corporations. What happen of these sums? The answer is not the same in France and in the US (section 2.2).

The neoliberal corporate governance, targeted to the maximizing of the market value of corporations, and the associated income flows toward lenders and shareholders, have a negative impact on the accumulation of capital and growth.

Overall, the three traits documented in this section appear as basic characteristics of neoliberalism in the US as well as in Europe:

1. Favorable technological trends.
2. New income flows in favor of ruling classes.
3. Low investment rates.

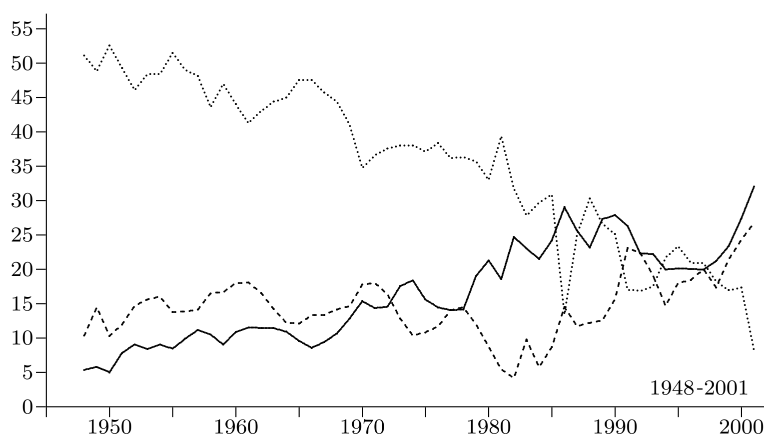
2.2 The imperial way: The US hegemony

This section is devoted to the specific features of the US economy related to its position as the most advanced (concerning technology and organization) capitalist country and their leadership among imperialist countries.

2.2.1 Large flows of income are at issue within international relationships.

There are many aspects to the domination that the US exercise over the rest of the world, even confining the analysis to the sphere of economic mechanisms. All components of economic activity are at issue, concerning trade as well as monetary and financial mechanisms. The prices of raw materials play an important role. The discussion below only considers a few aspects of the relationship between the US and the rest of the world, concerning profits and financial flows, as they appear within national accounting frameworks. The purpose of the analysis is to illustrate the importance of these international links for the US economy.

Figure 9 Share of three components of the total profits of corporations in the US (%)



Rest of the world: (——); Financial sector: (-----); Manufacturing: (·········)

Profits are measured before profit taxes. The *rest of the world* corresponds to the excess of profits made on US investments abroad over the profits made by the rest of the world on foreign direct investment in the US. (These profits may remain in the country where the investment is made.) Trade, Contruction, Public Utilities, Transportation and Communications, and services are not represented.
Source: NIPA (BEA).

Figure 9 provides a first illustration of the impact of these mechanisms concerning *direct investment*. The variable is the *difference* (the net flow) between the profits made by US agents on their direct investment abroad (in their affiliates) and the profits made by foreigners on their direct investment within the US. In the year 2001, the last of the series, the receipts from the rest of the world represented 27.5% of the total profits of all corporations, and the payments to the rest of the world 3.2%, that is a net flow of 22.5% as shown in the figure. The share of profits of manufacturing industries is displayed for comparison (below 13% in 2001). (Besides the financial sector which is also plotted in the figure, the rest is made of trade, transportation and communication, public utilities, and services, which are not represented, and account for 33% of total profits in 2001.)

The rise of the share of profits realized by the financial sector is also dramatic, in particular since 1985. In the year 2001, this share reaches 31.5%. This illustrates a central aspect of neoliberalism. Note that the total of the flow of profits resulting from direct

investment abroad (net of the flow of profits on foreign direct investment in the US) and the profits of the financial sector now amount to about 54% of total profits, a quite revealing feature of neoliberalism under US hegemony: financial and global.

Besides direct investment, the US hold other financial assets on the rest of the world, and the rest of the world holds assets on the US economy.[11] They are made of shares, other securities, and the balance of any account. The corresponding flows of income are a complex mix of interest, dividends, and possibly other sources of income.

Figure 10 shows, respectively, the total holdings of the US on the rest of the world, and the holdings of foreigners on the US (including, in both instances, direct investment). Although the holdings of the US on the rest of the world grew since the 1950s, from 9% to 37% of GDP, the rise is dwarfed by the surge of the holdings of the rest of the world, that amount now to 70% of the GDP. This is a new, very important, link between the US and the rest of the world.

The associated flows of income from the US and the rest of the world grew to considerable extents. This is demonstrated in figure 11 that shows the flows of income from the rest of the world and toward the rest of the world, as a percentage of total GDP in the US. Since the early 1980s, the two flows represent about 3% of GDP. This is a considerable figure. Just to provide an order of magnitude, one may recall that the total sum of dividends paid to households in the US amounts to 3.8% of GDP.[12]

2.2.2 The US benefit from their key position in the asymmetrical process of (1) exploiting the rest of the world and (2) supplying income to international capital.

An interesting variable is the apparent yield on the various categories of assets, respectively for US and foreign agents.

We first consider the yields on direct investments. The result is presented in figure 12, for US investors and the rest of the world (since 1980). A puzzling asymmetry is apparent. The yield on US direct investment abroad is about three times larger than the yield on Foreign direct investment in the US! The profit rates of the affiliates of foreign corporations within the US economy seem particularly low, and the affiliates of US corporations in the world appear far more profitable.

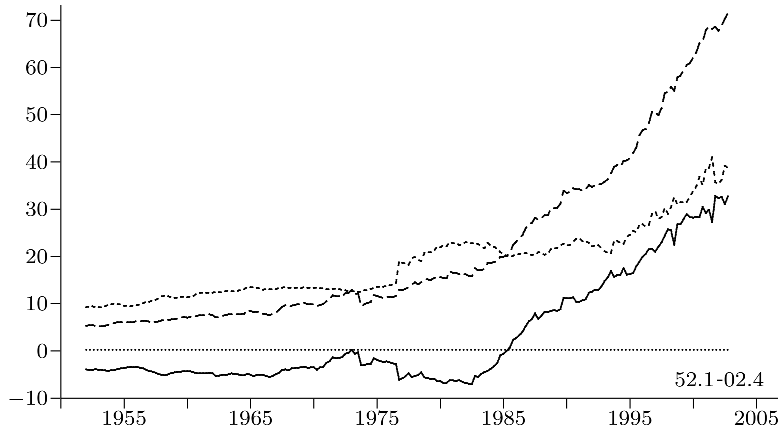
A similar calculation can be made for total holdings. The variable considered is the ratio of the flows of income as in figure 11 to the corresponding stocks of holdings as in figure 10. These rates of return are plotted in figure 13.

The yield on the holdings of the rest of the world is considerably inferior to that of US holdings on the rest of the world (a difference of 3%). Despite a number of exceptions to the general parallelism, for example the comparatively lesser difference between the two series at the beginning of the 1980s, in the average over the entire period in the figure, the yield on the holdings of the US on the rest of the world is more than twice that on the holdings of the rest of the world. The reciprocal relationships of the US economy and the rest of the world is globally *asymmetrical*.

The explanation of these asymmetries is complex. It clearly relates to faith in the strength of the dollar, and must be understood (1) in relation to the global dominance

11. In 2001, foreign direct investment in the US represented 20.4% of the total holdings of the rest of world. The same year, US direct investment abroad amounted to 42.3% of the total holdings of the US on the rest of the world.
12. This percentage excludes dividends received by funds.

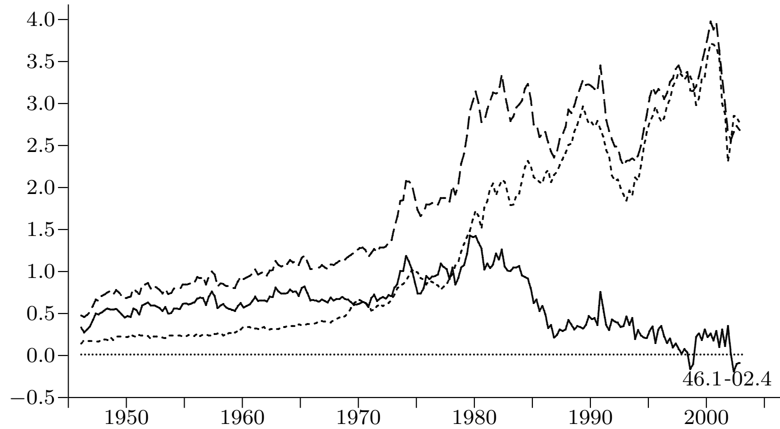
Figure 10 Ratios to the GDP (of the US) of the holdings of the rest of the world on the US, and of the US on the rest of the world



Holdings of the rest of the world on the US: (— —); Holdings of the US on the rest of the world: (-----); Net holdings of the rest of the world on the US: (——)

Source: Flow of Funds (Federal Reserve).

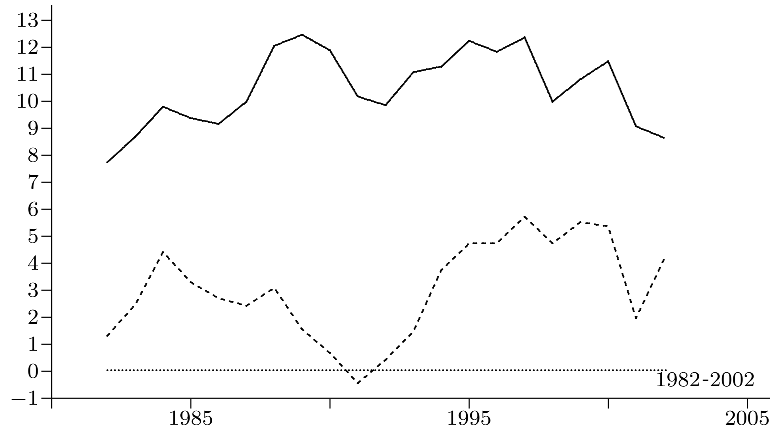
Figure 11 Ratio to the GDP of the flows of income on the holdings of the US over the rest of the world and of the rest of the world over the US



Income from the rest of the world: (— —); Income toward the rest of the world: (-----); Income from minus Income toward the rest of the world: (——)

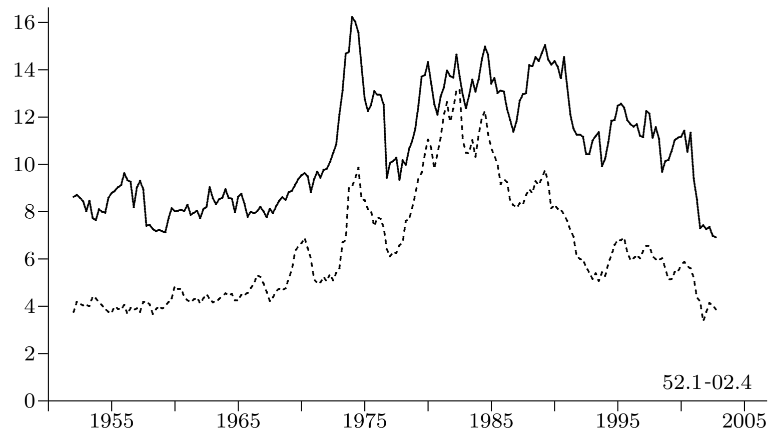
A positive sign for the difference (——) means that the rest of the world holds more assets on the US than the US on the rest of the world.
Source: International Transactions data (BEA); NIPA (BEA).

Figure 12 Apparent rates of return on US direct investment abroad and on foreign direct investment in the US (%)



US Direct Investment Abroad: (——); Foreign Direct Investment in the US: (-----)

Figure 13 Apparent rates of return on the holdings of the US on the rest of the world and of the holdings of the rest of the world on the US (%)



Apparent rate on the holdings of the US: (——); Apparent rate on the holdings of the rest of the world: (-----)

Source: International Transactions data (BEA); NIPA (BEA).

of the US on the world economy, the position of its financial sector, the location in this country of the major business staffs of large multinational corporations, its key position concerning the most advanced technologies, its political stability, etc., and (2) in some cases, the desire of agents of other countries to protect holdings from national risks or constraints.

A typical illustration would be the holdings of securities and investment by the wealthy class of oil producing countries or the investment of currency reserves by foreign central banks in US treasury bills. Such investment is seen as risk free and liquid, although it is remunerated at comparatively lower rates. This refers to the existence of an international stock of *rentier capital* directly connected to the US economy.

Overall, this key role of the US within the world economy appears quite favorable to this country. Simultaneously, the US draw income from the rest of the world and distribute a fraction to foreign financial investors. However, in between, large profits can be garnered, as long as the external position is maintained. This construction might prove very unstable in the event of a major crisis, but this is another issue. (Whether it can be maintained under present conditions is discussed in section 3.)

2.2.3 The growing external deficits gradually erode the benefits of the asymmetrical yield on international holdings.

A well-known feature of the macroeconomy of the US is the growing deficit of external trade. As shown in figure 14, both imports and exports increased relative to GDP since the 1950s: from about 4% each to about 10%. However, imports rose considerably more since the 1980s, despite the succession of ephemeral restorations. In the early 2000, the deficit represents about 4% of GDP.

The permanence of such deficits is only made possible by the readiness of foreign agents to finance it. No European country could allow such deficits without initiating a flow of capitals fleeing the currency (what is known as the "sanction" of international markets), without mentioning countries of the periphery.

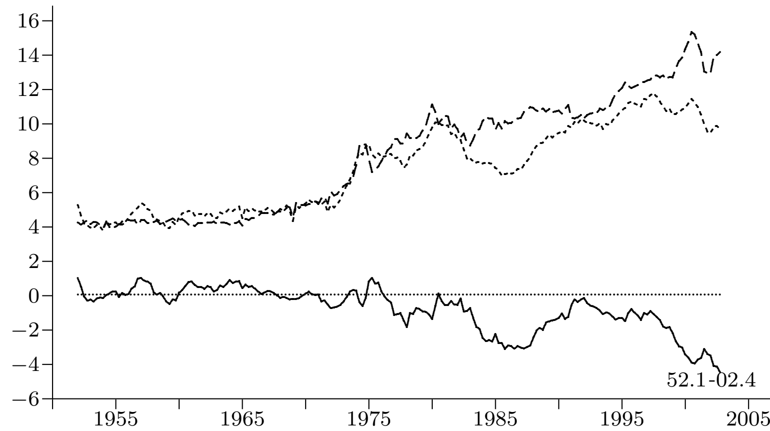
The third curve in figure 10, that measures the difference between the two others, describes the net financial position of foreigners vis-à-vis the US economy, as a percentage of GDP. Prior to the assertion of neoliberalism, it was negative (an order of magnitude of −4%, for the period 1952-1980). But a new trend was asserted around 1980, coinciding precisely with the assertion of the neoliberal order. The sign changed in 1985, and the position of foreigners vis-à-vis the US is now positive, reaching about 33% of GDP!

Although credit market instrument are only a fraction of total holdings, the growing deficit mostly resulted from the growth of this component. At the end of 2002, it amounted to more than 76% of the net position of the US. Consequently, it is possible to refer to a *net debt* of the US toward the rest of the world. *This is an outstanding feature of the present situation of the US economy.*

This involvement of foreigners is analyzed in opposite fashion by analysts from the left and from the right. The former tend to see it as a weakness, and there is no doubt that any reversal would question the present course of the macroeconomy in the US. Analysts from the right stress the attractiveness of the US economy, supposedly so profitable: so flexible, so less bureaucratic than the European or Japanese economies, etc.

This attractiveness of US financial investment is not due, contrary to what is suggested by neoliberal propaganda, to higher profit rates or higher interest rates. The comparative

Figure 14 Ratios of imports, exports, and balance of trade to the GDP (%): US



Trade balance: (——); Exports: (-----); Imports: (— —)

Source: Flow of Funds (Federal Reserve).

measures of profit rates in the US and Europe do not reveal such a gap to the advantage of the US. Interest rates are similar (figure 5), as well as the profiles of the stock market in the major capitalist countries. Anyhow, figure 13 proves directly the opposite: the yields on assets held in the US by foreigners are not astounding, in comparison to the yields made by US agents, though they could be superior to the domestic yields foreign agents might obtain in their own country, given the hierarchy of risks.

The asymmetrical character of the yields on the holdings of the US on the rest of the world and the rest of the world on the US, allows for the financing of the rapidly deteriorating position of the US. *The flows of income from the rest of the world to the US have been reduced to practically zero.* As shown in figure 11, at the end of the year 2000, just before the contraction of the growth rate which led to the recession, these flows of income toward the US represented more than 3.5% of total GDP. But the reciprocal flow had reached about the same level. Though the "system" remains effective in terms of yields, the favorable flow has been nullified by the negative position of the US toward the rest of the world.

2.2.4 The deteriorating position (in particular the growing debt) of the US vis-à-vis the rest of the world is the effect of a dramatic wave of consumption by rich households.

The deteriorating position of the US vis-à-vis the rest of the world in figure 14 is the expression of the negative balance of trade as in figure 10 plus the net flows of income whose main component has just been discussed above, and which is now practically equal to zero. The deficit of the balance of trade reflects the fact that more is spent in the US, as *investment and consumption*, than is produced or, to put it differently, total investment is larger than total savings. We will successively examine these two components.

In this analysis, we denote the investment of enterprises[13], which directly increases the

13. As is well known, investment is equal to the variation of the stock of fixed capital (and the

productive capacity of the economy, as *investment**, and denote as *consumption** all other expenses, including consumption in the strict sense, but also the purchase of durable goods and housing by households, and building and public works [*voir terminologie*] by the state (federal and local). Correspondingly, *savings** are defined as the excess of consumption* over total income. In a simple close economy, these savings* would be the only source of financing for the investment of enterprises. Such savings are also called *financial investment*, since they materialize in the variation of the monetary and financial assets (of households and of the state), after deducting the variation of the debt (the net financial position of these agents). Both investment* and savings* are meant net of the depreciation of capital.

As shown in figure 15, a very striking feature of neoliberalism in the US was the sudden collapse of both the rates of investment* and savings*. The rate of savings* fell more and the difference between the two curves corresponds to the external deficit of trade as in figure 14 (abstracting from the flows of income):

1. Though the investigation was limited to corporations (instead of all enterprises), the fall of investment* has already been discussed in section 2.1.3, in relation to the decline of the retained profits.

2. The saving* rate fell during the 1982 recession and never recovered to its previous levels from about 5% (1952-1981) to slightly more than 1% (1982-2002). During the 1980s, the main factor of this fall was the deficit of the budget, which was, itself, the combined effect of the sluggish growth rates or recession, and of the surge of interest due to the 1979 coup. Simultaneously, households began to spend (in goods and services) a growing fraction of their disposable income. As shown in figure 16, their saving* rate culminated in 1982 at 9%, and then began a gradual decline to very low values. This is another crucial aspect of the specific course of neoliberalism in the US.

Two features of this propensity to spend are noteworthy. First, housing is not at issue, but consumption, more specifically the consumption of nondurable goods. Second, *this movement is entirely concentrated within the upper strata of income, the wealthiest*.[14] This is really a spending spree within the richest fraction of the population, the same people who benefit from the new flows of income and the rise of the stock market.

Globally, it is not possible to allocate the various components of the financing of the US economy by the rest of the world to investment* or consumption*. It is, however, clear, that the neoliberal decades cannot be characterized by unusually large investment*, quite the contrary. Consumption* is clearly at issue, the consumption of the state (with a short exception) but, above all, the consumption of households, actually the richest fractions, made possible by the contribution of foreigners.

Note, finally, that one might wonder why such consumption* rates do not result in larger inflation rates. Actually, a growing fraction of this demand is provided by other countries as is manifest in the deficit of trade.

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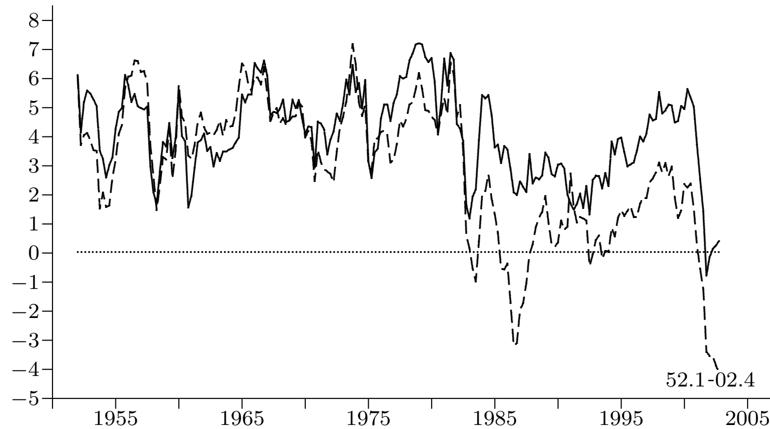
variation of inventories).

14. A recent study shows that the propension to save only diminished for households whose income belongs to the group of the 20% larger incomes (D. Maki, M. Palumbo, Disentangling the Wealth Effect: A Cohort Analysis of the Household Saving in the 1990s, Federal Reserve, Washington, 2001).

Figure 15 Ratios of savings* and net investment* to NDP (quarterly data, %): US total economy

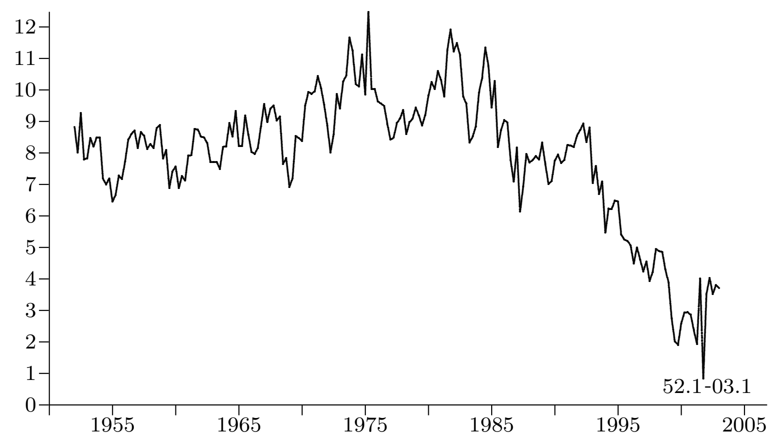


Rate of net investment: (——); Rate of net savings: (— —)

In a simple formulation, investment* is that of enterprises, and savings the excess of domestic income over all other expenses.

Source: Flow of Funds (Federal Reserve); Fixed Assets Tables (BEA).

Figure 16 Ratio of savings* to disposable income (quarterly data, %): Households in the US

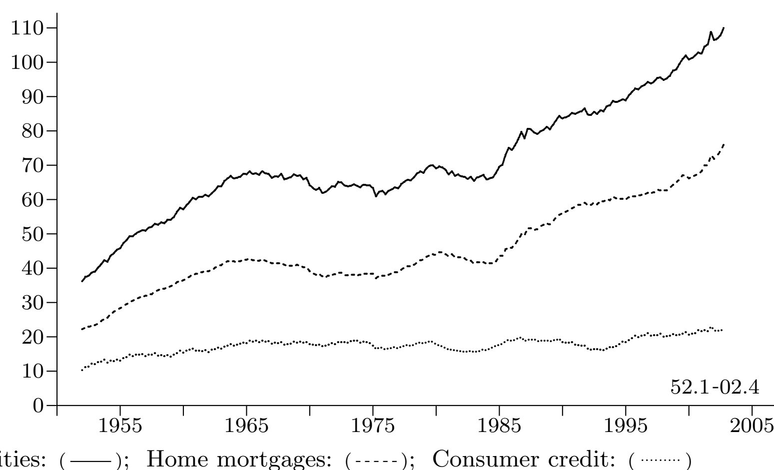


Disposable income is total income after paying taxes. Savings is the excess of disposable income over all purchases of goods and services and the payment of interest.
Source: NIPA (BEA).

2.2.5 The growing indebtedness of households was made possible by the intervention of the state.

The rise of the spending of households in the US was paralleled, obviously augmented, by their growing indebtedness (which also contributed to the purchase of financial assets). This is a well-known phenomenon, strikingly illustrated in figure 17, that shows the ratio of the total debt of households to their disposable income. After fluctuating rather horizontally around 60%, the ratio increased from the mid-1980s onward to more than 100%.

Figure 17 Ratio of the debt (total liabilities and its components) of households to their disposable income (quarterly data, %): US



Total liabilities: (——); Home mortgages: (-----); Consumer credit: (·········)

Source: Flow of Funds (Federal Reserve).

It is interesting to notice that the bulk of the increase is made of mortgages, although the rise in the spending of household is mainly the effect of the rise of the purchase of non-durable goods and services.[15]

We believe the gradual shift in borrowings and spendings was the cumulative effect of monetary policy (box 4), given the space opened by growing external deficit. A synthetic formulation could be that *the frilosity of enterprises concerning borrowings is compensated by the inducement of households' consumption.*

15. Various mechanisms may explain this divergence. Households can borrow for the purchase of housing from other households, thus initiating a transfer within the group (since the purchase of housing from another household is not an investment considering households globally); they can also borrow more extensively for housing and let surge their consumption of nondurable goods. (Interest rates on mortgages are lower than on consumption credit, and it is more advantageous to borrow largely on housing while increasing other spending than the reverse.) etc. Such behaviors may also be related to the desire of combining the accumulation of securities, in pension funds or not, with borrowing for housing purposes, instead of diminishing financial investment (thus indirectly financing financial investment by mortgages).

4 - Monetary policy:
Households and enterprises

The main channel of monetary policy in the US is the impact of interest rates on borrowings by households on mortgages, while the action on interest rates has little effect on the investment behavior of enterprises. *(a)*
The basic fact is the decline of the rate of retained earnings of enterprises as documented in figures 7 and 8. Since this decline is paralleled by that of accumulation (the demand of investment goods), it creates a deficit of demand in the short run. Due to the autonomous dynamics of investments by enterprises (not affected by the variation of interest rates), policies can only stimulate the demand from households (by credit), that is diminish their savings. Hence, the complex pattern of evolution in the US: (1) the decline of the saving rates of enterprises; (2) hence the decline of the saving rates of households; (3) the decline of saving rates for the total economy.
This distinct role of households and enterprises concerning monetary policy is an important component of the analysis of business fluctuations as in section 3. The continuous contribution to the expense of households adds to the amplitude of the boom and limits the crash, but the cycle remains as the expression of the rather autonomous behavior of enterprises.

(a) B.S. Bernanke, A. Blinder, "The Federal Funds Rate and the Channels of Monetary Transmission", *American Economic Review*, 82 (1992), p. 901-921.

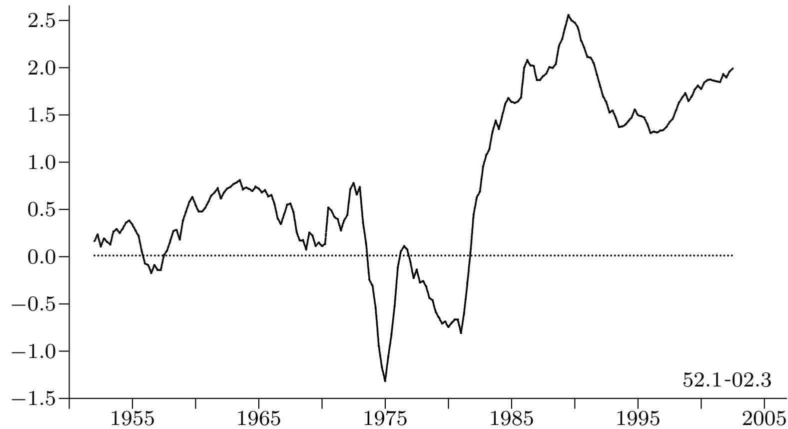
The behavior of enterprises and households can be judged puzzling, as well as the willingness of financial institutions to accompany the daunting eagerness of households to increase their indebtedness to unprecedented levels:

1. *Why do enterprises are reluctant to borrow?* The burden of interest payment on the profitability of enterprises remains high despite the decline of nominal interest rates. This is evident in figure 18 which shows the ratio of net interest (since enterprises simultaneously pay and receive interest, though they pay more) to their net worth. The variable directly measures the number of percentage points lost on the profit rate as in figure 8: about 1.8% since the early 1985s. (Note that the ratio initiates a new rise in the late 1990s.) Under such conditions, the lever effect is considerably reduced. In combination with the observation that the net (given the shares that they themselves purchase) issuance of shares by corporations is, in the average, negative under neoliberalism, this suggests that the maximizing of shareholder value results in a weak propensity to invest, as mentioned in section 2.1.3.

2. *Why do households want to borrow?* Only the stimulation of the spending of households compensates for such reluctance to spend on the part of enterprises. Surprisingly enough, the burden of payments (interest and principal) for households did not increase, probably in relation to the shift toward loans on longer terms.

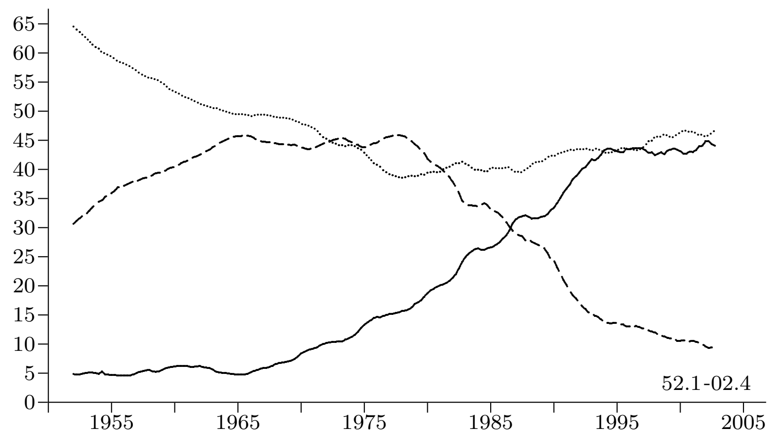
3. *Why do financial institutions want to lend?* The most puzzling aspect of these mechanisms is the willingness and capability of financial institutions to lend to such indebted households. This is clearly the effect of the growing intervention of the state in credit policy. The outstanding stock of mortgages is held by either: (1) commercial banks; (2) saving institutions; (3) life insurance company; (4) government (government sponsored enterprises and federal and local governments); (5) federally related mortgage pools; and (6) and others. Figure 19 shows the percentage held by three categories: (1) saving institutions; (2) federally related mortgage pools and government; (3) and a broader group of

Figure 18 Ratio of the charge of net interest of nonfinancial corporations to their net worth (quarterly data, %)



A correction is made for the devaluation of the debt by inflation.
Source: NIPA (BEA); Flow of Funds (Federal Reserve).

Figure 19 Share of total mortgage loans held by various financial agents (quarterly data, %)



Saving institutions: (— —); Federally related mortgage pools and Government: (——); Others: (·········)

As is obvious from figure 17, mortgages are the main component of the debt of households.
Source: Flow of Funds (Federal Reserve).

others. It reveals the dramatic rise of federally related mortgage pools (a substitute for the dwindling saving institutions) and government. These pools purchase the mortgages from their original issuers and sell corresponding guaranteed securities to financial investors, potentially any domestic or international agents. The rate of interest is lower but the risk has been transferred to the state: The state acts as a substitute for private institutions.

2.3 The neoliberal-hegemonic mix: Hypertrophying the cycle

This section discusses the succession of the boom in the US during the second half of the 1990s, and the sudden contraction of the growth rate beginning at the end of 2000 and the ensuing recession. The main thesis is that a traditional cycle (the succession of a boom and a recession) was magnified to considerable extent by various specific aspects of neoliberalism under US hegemony: Both the neoliberal and hegemonic features were at issue. The correction required is more severe than the examination of the growth rate of the US economy (up to the first quarter of 2003) suggests. More is probably to come.

2.3.1 The boom during the second half of the 1990s was rather exceptional in duration and the recession is severe in several respects.

The boom during the second half of the 1990s was the source of much pride in the US. It was presented as the first manifestation of a new era: a *new economy*. As shown in figure 20, the values of the growth rates were not really exceptional, but they were maintained during a rather considerable period of time (1994-2000).

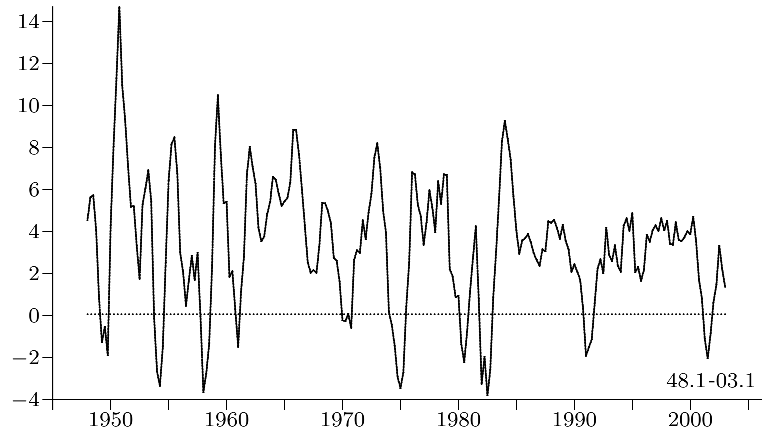
Abstracting from the mechanisms involved, the most direct features of the recession suggest a contrasted picture:

1. *The contraction of the growth rate and its recovery, up to the second quarter of 2002, was in line with earlier fluctuations since World War II.* An examination of the last observations of figure 20 (up to the third quarter of 2002 when the growth rate reached 3.3%), and the comparison with earlier patterns of recovery, suggests the existence of a recovery in line with usual business-cycle fluctuations. The effects of the preparation of the Iraq war is not evident. The growth rate for the fourth quarter of 2002 was 2.2%, and 1.4% for the first quarter of 2003. Does this decrease foreshadow a new contraction?

2. *Up to the first quarter of 2003, there was no recovery within manufacturing industries.* A negative element is that the capacity utilization rate within Manufacturing industries stagnates at recession levels since 2001, with no sign of recovery to date. This observation seriously questions the future of the recovery.

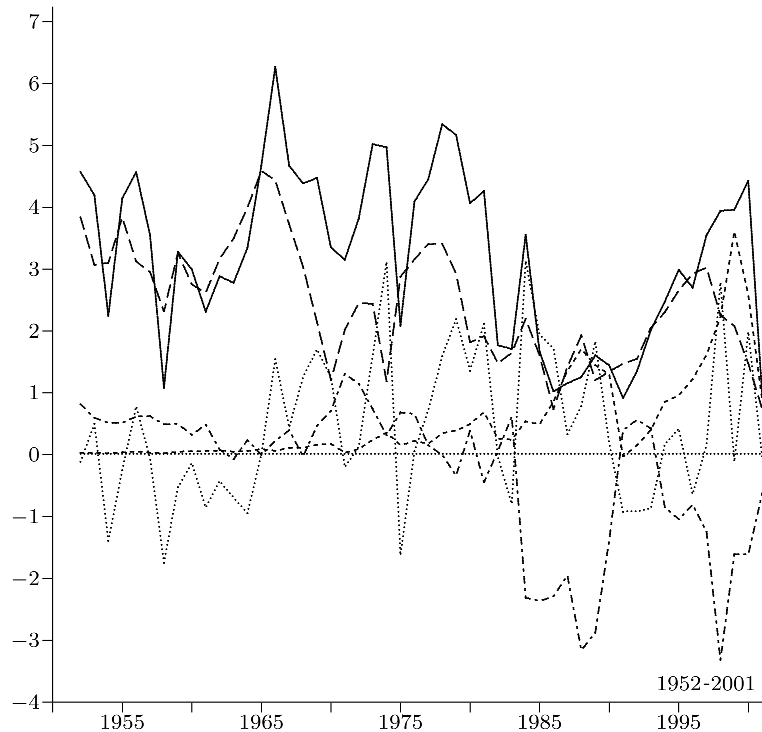
3. *The fall of investment was particularly strong.* This is shown in figure 15. The boom in investment had been long and significant, from 1994 to 2000: The share of total nonresidential investment to GDP recovered in 1997 its average values of the period 1952-1982. But the fall in the recession was deep and sharp and, to date, the recovery is only manifest in information and communication technologies (figure 4). Globally, *the boom of the second half of the 1990s was marked by a strong wave of investment, followed by a sharp decline.*

Figure 20 Growth rate of NDP (%): US, private economy



The series measures yearly growth rates for each quarter: The NDP in one quarter is compared to its volume in the same quarter, one year earlier.
Source: NIPA (BEA).

Figure 21 Ratio of investment and its various sources of financing to the stock of fixed capital (%): US nonfinancial corporations



Net investment: (——); Retained profits: (— —); Net new equity issues: (-—-—); Increase in net liabilities (FDI in the US excluded): (·········); Foreign Direct Investment in the US: (-----)

Source: NIPA (BEA).

2.3.2 The active credit policy of the state both stimulated the boom and, to date, limited the severity of the recession.

The function of monetary policy in the preservation of the levels of demand and, therefore, levels of activity, in the US has already been discussed in section 2.2.5.

The active policy of the state concerning the credit to households contributed to the stimulation of the boom and to its prolongation. It was also a crucial factor in the limitation of the size of the recession. A striking feature of the recent trends of the total debt of households (figure 17) is that *it went on rising during the recession.* Correspondingly, the saving rate of household remained very low.

This observation points to the fact that the behavior of enterprises was central in the succession of the boom and the crash, since demand from households was steadily maintained, even after the decline of the stock market (box 4).

2.3.3 The long boom was financed by the unusual flow of foreign capital (expression of US hegemony) and new borrowings.

As already evident from figure 8, the relationship between retained profits and accumulation was broken during the boom. This represents a dramatic exception to an otherwise steady pattern. Investment began to recover, in a rather usual fashion, from the recession of 1991-1992 until 1995, but this expansion was maintained in spite of the new decline of the rate of retained profits. Investment was actually financed by other sources of financing in addition to retained profits.

Figure 21 shows the ratio of investment to the stock of fixed capital of all nonfinancial corporations, and makes explicit the contribution of the various sources of financing:

1. The figure confirms the strength of the recovery of investment by nonfinancial corporations. After about 10 years of stagnation around 1.3%, the ratio of net investment to the net stock of fixed capital peaked at 4.4% in 2000, a level similar to that maintained between 1963 and 1981.

2. Between 1990 and 1997, the pattern of financing was rather standard, drawing mostly from internal resources. In accordance with earlier trends, the net issuance of shares played no role, and the contribution of new borrowings was low and then negative. It is interesting to note the growing importance of Foreign direct investment in the US, whose increase paralleled that of internal funds.

3. The situation changed dramatically after 1997, as internal funds peaked in this year and then declined. After 1997, the contribution of two components increased: (1) New borrowings; (2) Foreign direct investment up to the recession. Thus, *the continuation of the boom beyond the limits usually set by profit rates can be explained by a willingness to borrow and the contribution of foreign investors.* This is a first important feature of the boom in its latter phase, that is since 1997.

Although it is difficult to unambiguously assess the direction of causation, foreign direct investment played a major role. It was attracted by the dynamics created by the first years of the boom and contributed to its continuation. This represents an interesting aspect of the hegemonic position of the US, more capable of stimulating demand than other advanced capitalist countries, in spite of the growing external deficit. This transfer of resources strengthened the boom on one side of the Atlantic and added to the slow

growth on the other side. Thus, the hegemony of the US is also part of the factors of the long boom, and the conditions which made the boom possible cannot be exported.

The examination of the cyclical movement of the mass of net interest paid by corporations points to another exceptional feature of the boom: *Growth was maintained despite the rise of the burden of interest of nonfinancial corporations* (beyond the usual limit, though not for ever). Considering earlier cycles, a strong regularity is apparent, that associates the periods of contraction of the growth rate of output to the growth of the amount of interest paid at a rate larger than that of output and, symmetrically, periods of expansion of the growth rate of output to periods of lower growth rates of the masses of interest paid.

The important observation is that the long boom in the late 1990s was an exception to this pattern. *The growing burden of interest did not interrupt the upward cycle of the growth rate of output.* Thus, the increase debt added to the flow of foreign capital.

2.3.4 The boom was interrupted by the decline of the profit rate due to the rise of the labor cost in relation to tensions on the labor market and the continuation of the rise of the burden of interest.

The decline of the profit rate from 1997 onward was a crucial factor in the interruption of the boom in the year 2000. It was the effect of the rise of the labor cost and the increase of the burden of interest. These two trends were already on the way during the boom, but they finally reached levels which destabilized the economy, in spite of the stimulation of the demand of households:

1. The increase in the growth rate of the labor cost was the outcome of tensions on the labor market. In the average between 1990 and 1997, the labor cost rose at a rate of 0.9% per year (in line with earlier trends since the early 1980s). Between 1997 and 2000, this rate amounted to 3.1% per year. The rate of unemployment reached exceptionally low levels between 1997 and 2000 (4% in 2000), stimulating this rise of the labor cost. These tensions were also clearly manifested in the variations of the number of hours worked: The decline, during the previous decades, of the number of hours worked per week of production workers was interrupted, and this number of hours stagnated during the boom. This rise of the labor cost explains the rapid decline of the share of profits (from 28.1% in 1997 to 24.6% in 2000), and the fall in the profit rate since 1997 apparent in figure 3.
2. In combination with the increasing labor cost, the growing burden of interest, as described in figure 18, accounted for the decline of the rate of profits, as measured in figure 8.

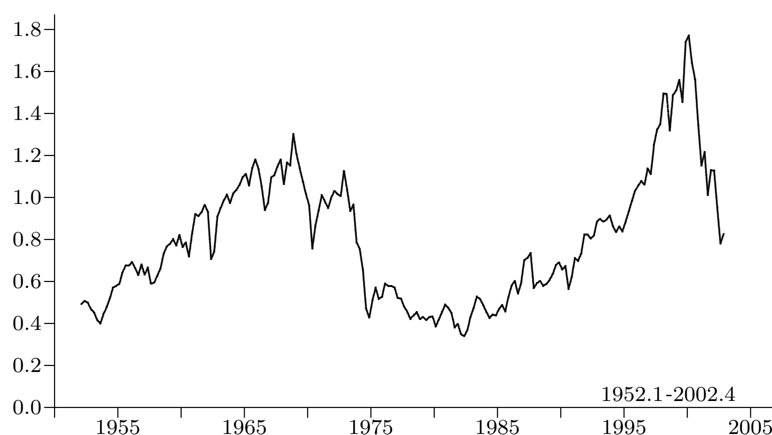
These two mechanisms echo those that Marx described in *Capital* as the basic factors which might initiate a recession. The rise of the labor cost at the end of the boom refers to what Marx denoted as a situation of *overaccumulation* (or what is known as the *Phillips curve*). The rising burden of interest was the second mechanism mentioned by Marx.

2.3.5 The long boom culminated in the stock-market bubble in line with earlier neoliberal trends.

After the sharp decline of the stock market into the crisis of the 1970s, indexes began to recover in the US and Europe. (We abstract here from Japan.) Although there is no reliable way of assessing any form of “normal levels” of the stock market, one may say that

the recovery since the early 1980s remained, in some sense, moderate until 1995. This is apparent in figure 22 which shows the ratio of equities at market value to the net worth of US nonfinancial corporations. In 1997, the ratio was still below 1, that is a value inferior to the average of the period 1963-1973. The subsequent rise was sharp, and is often designated as a *bubble*. A ratio of 1.77 was reached in the first quarter of 2000. Then, the collapse is apparent, down to 0.78 for the third quarter of 2002. Note that this movement is not specific to the US.

Figure 22 Ratio of equities at market value to net worth [Tobin's q] (quarterly data): US, nonfinancial corporations



Source: Flow of Funds (Federal Reserve).

It is difficult to assess the negative impact of this fall on the behavior of enterprises. One thing seems clear: Mergers and acquisitions led the purchase, and inclusion in the accounts of the groups, of firms dramatically overvalued.[16] In the context of the decline of stock market, this implies a difficult restructuring of balance sheets, with certainly negative consequences on investment, and a difficulty to issue new shares.

The direction of causation between the boom in investment, the merger wave, the repurchase of shares, and the bubble in the stock market is hard to establish. We believe they should be seen as facets of a same phenomenon, given the irruption of foreign capital and the rise in borrowings.

2.3.6 The correction is severe for each aspects of earlier excesses (investment, borrowings by enterprises, and flows of foreign capital), including the collapse of the stock market and financial turmoil, but the debts of households and of the country are still growing.

As could be expected, the correction after the long boom was particularly strong. The decline of investment has been documented in several figures (figures 4, 8, 15, and 21).

16. The inclusion of the difference between the accounting value of the firms and the price at which it was purchased in the financial assets is known as *Goodwill* (Commissariat Général du Plan, *Rentabilité et risque dans le nouveau régime de croissance*, Paris: La documentation française, 2002).

The fall of borrowings by corporations was sharp, as shown in figure 21. The same figure documents the decline of the flows of foreign direct investment in the US. Figure 22 shows the amplitude of the correction on the stock market, which cannot be separated from the accompanying financial turmoil.

It is, however, important to notice that none of the longer term disequilibria, characteristic of neoliberalism, have been corrected. The net position of foreigners in the US kept growing during the recession (figure 10). The same was true of the debt of households (figure 17). To date, the basic traits of neoliberalism, and their most threatening components for the US economy, are still unaltered.

The long boom played a crucial role in neoliberal propaganda, suggesting that the rest of the world had no better option than to follow the path opened by the US — like Argentina, after the transformation at the beginning of the 1990s, was presented as the living proof of the benefits of neoliberalism for countries of the periphery! Actually, both the long boom and the crash were the product of (1) neoliberalism (2) US hegemony. None of the disequilibria of the US economy are solved by the recession. The major traits of neoliberalism — the damages caused by the greediness of the upper fractions of ruling classes — are clearly unveiled on a world basis. The economy sets now the stage for a new episode of the same continuing class struggle, probably with even more violence as already evident in the new military trends.

3 - The dynamics of neoliberalism under US hegemony

This section discusses the most difficult issue in this paper, that is the perspectives which are now opened to *neoliberalism under US hegemony*. Again, the two facets are at issue: neoliberalism and US hegemony.

Definitions:

1. By the *continuation of neoliberalism* [1], we mean the capability of the upper fractions of ruling classes to impose a course of the economy in which the central objective is the preservation and possible increase of flows of income favorable to these classes, allowing simultaneously for the preservation of their wealth and lavish way of life (consumption). This statement also defines what must be understood by the possible unraveling of the neoliberal order and the establishment of a new social configuration.

2. Neoliberalism *under US hegemony* [2] means that these privileges are primarily those of ruling classes in the US, and only secondarily within other countries. Note that the issue discussed in this section is not intrisically that of US hegemony *in general* (as in technology or concerning armaments), although this broader issue is obviously crucial to the preservation of these privileges. Of course, the continuation of US hegemony would be compatible with the assertion of a new social order.

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