

## The Crisis of Neoliberalism

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The implementation of neoliberalism in the late 1970s and early 1980s was a rather painful process, with the multiplication of crises around the world, as in the United States during the 1980s, Japan in 1990, Mexico in 1994, Korea and other countries of East Asia in 1997, and Latin America, notably Argentina in 2001. The expression “crisis of neoliberalism” is, however, used to designate the major crisis that hit the United States (US), Europe, and indirectly many other countries in the so-called “financial crisis” of 2008 and the “great recession” of 2009. Thanks to the dramatic policies conducted in support of financial institutions and the stimulation of the economies by huge deficits of government expenses, the repetition of a scenario similar to the Great Depression was avoided, but macro policies cannot remedy a structural crisis. As of the 2010s, the “world” is no longer in crisis, but the US and, even more, Europe are not out of crisis, with low growth rates—what is now denoted as “stagnation”—and skyrocketing government debts.

The establishment of neoliberal capitalism cannot be understood as a merely economic phenomenon, a change in policies and institutions. The crisis of neoliberalism is the expression of the inner contradictions of a political strategy supported by basic national and international economic transformations, whose main objectives are the restoration and increase of the power, income, and wealth of upper classes. But the international domination of the US worldwide was considerably weakened during the most recent decades and profoundly affected by the crisis itself as other countries were forging ahead. The new policies now undertaken in the US testify to a strong determination on the part of the government and the Federal Reserve to revert this declining trend. If these strategies were successful, US neoliberalism could be retrospectively understood as a stepwise process, with a first episode whose major stake was the restoration of the hegemony of upper classes, and a second episode now targeted to the restoration of US international hegemony. Much remains to be done, however, and the final outcome is far from obvious.

The analysis is conducted in five sections. First, we examine the historical background in terms of relations of production, classes, and class struggle. Second, we attend to the success—according to its own criteria—of the new social order and its, at least, provisional failure in the crisis of 2008 marking the end of a first episode in the neoliberal endeavor. The third section is devoted to the resurgence of traditional Keynesian and Marxian interpretations among leftist academics, which may shed some light on this complex course of events but, in our opinion, fails to address the specific class and imperial features of the chain of events that led to the crisis. Fourth, we address the significance and prospects of the new policies in the US that aim to restore the country’s international economic hegemony, the second episode that remains to be written.<sup>1</sup> A final section is devoted to broader historical prospects.

### **1. Neoliberalism as a successful strategy of class reconquest in the overall dynamics of managerial capitalism**

Relations of production are in constant evolution, even within each of the successive modes of production. In this respect, the history of the US since the independence of the country is quite specific as, from the origin, capitalist relations of production developed on the new continent at a distance from the remnants of feudalism or the transition of the *Ancien Régime*. But reaching the end of the century, the emergence of new managerial features signaled a basic transformation in relations of production, with the three revolutions at the turn of the century, namely the corporate, the financial, and the managerial revolutions. The US

capitalism of the early 20<sup>th</sup> century was already a hybrid society, a “managerial capitalism”. A straightforward quantitative expression of this secular tendency is the invasion of the upper segments of the income pyramid by wages compared to capital income (rents, dividends, and interest). Considering the top 1 percent (the fractile 99-100) of households in the income pyramid, prior to the Great Depression in the US, capital income still amounted to 1.5 more than wages, emphasizing the capitalist nature of the fractile. In 2012, the ratio had been inverted as wages were 4 times larger than capital income. Nowadays, even within the top 1/1000<sup>th</sup> of the income pyramid, wages are twice that of capital income.

The progress of managerial relations of production cannot be separated from the transformation of class patterns. For the traditional bipolar scheme *capitalist-proletarian classes*, one must substitute the threefold pattern *capitalist-managerial-popular classes*. The position of managerial classes was originally that of a new intermediate class, but these classes gradually move to the top, at the conquest of the status of new upper class besides capitalists. (Within both classes, capitalists and managers, a large spectrum of positions obviously exists.) Our interpretation is that a transition is presently under way toward a new mode of production in which managerial classes would be the new upper classes. The hybrid features of managerial capitalism are the expression of this transition.<sup>11</sup>

Concerning the politics of the transition, the pattern of dominations and alliances between the three classes are of crucial import. Since the early 20<sup>th</sup> century, we distinguish between three social orders:

- 1) *The first financial hegemony.* From the beginning of the century to the Great Depression, capitalist classes unquestionably dominated social relations, in alliance with the emerging class of managers, an alliance to the right.
- 2) *The postwar compromise.* From the New Deal to the 1970s, a new social order was set up.<sup>1</sup> This order was the outcome of the depression itself, in the context of the rise of the worker movement worldwide, and under the threat of self-proclaimed “socialist” countries for capitalist classes. The new social order was the expression of the alliance between popular classes and managers, an alliance to the left, within “social-democratic” or “Keynesian” societies. The main social forces in these movements were popular classes, but managerial classes assumed the leadership in the new management of corporations and the definition of new policies.
- 3) *The second financial hegemony in neoliberalism.* In the context created by the crisis of the 1970s, the continuing struggle on the part of upper classes, and the weaknesses of the postwar compromise, the alliance swung to the right, between capitalist and managerial classes. The new trends were already manifest during the 1970s and early 1980s, with the dramatic restoration of the income and wealth of upper classes still on the rise after 2000. The management of corporations was radically transformed to the benefit of shareholders; new policies were defined; free trade and the free movements of capital worldwide placed the workers of all countries in a situation of competition. In the US, the progress of the purchasing power of the bulk of wage-earners was blocked and the old controls that the New Deal had placed on financial institutions were lifted. Note that neoliberalism is a phase of managerial capitalism, not an

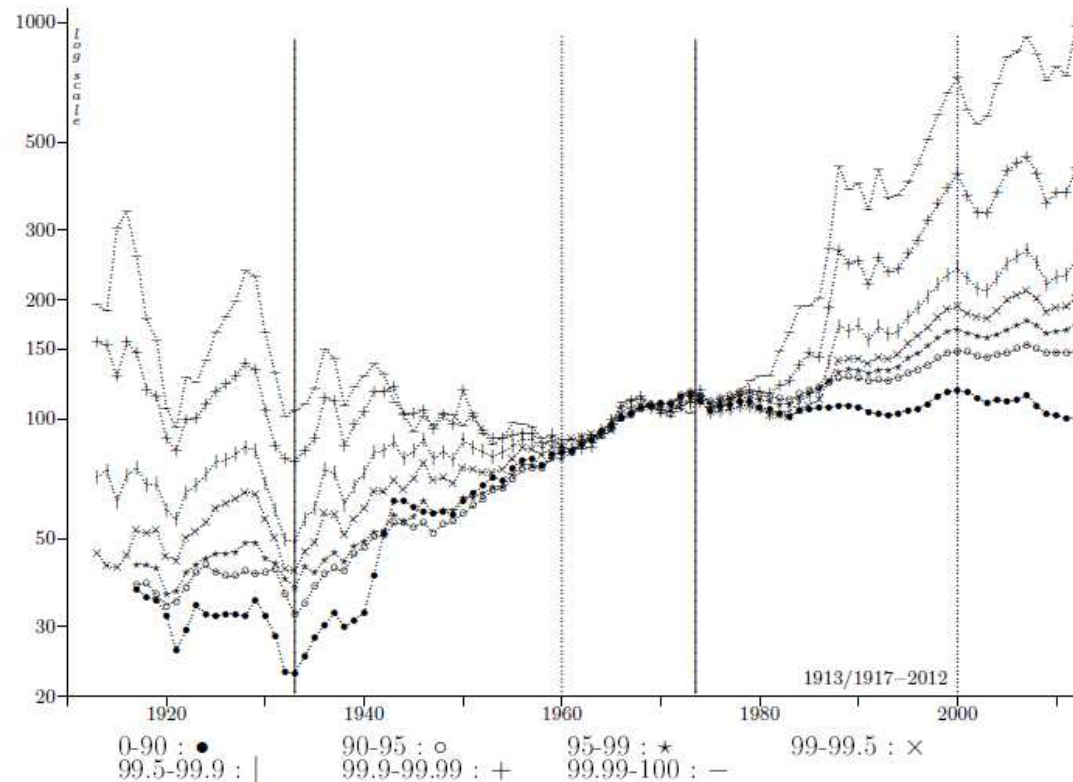
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<sup>1</sup> The « New Deal » is the name given to the set of programs and policies enacted in the US under President Franklin Delano Roosevelt after 1933, in the wake of the Great Recession. It is also commonly referred to the political groups that supported many of the policies enacted during the first decades following World War II as the “New Deal coalition”.

ideology, though there is obviously a neoliberal ideology, that of “free-market” economics (limited government intervention), as in Classical liberalism. One must, however, keep in mind that neoliberal governments remained strong and played a crucial role in the launching and perpetuation of the new social order.

Figure 1 shows the average yearly income in constant purchasing power *per* household in each fractile of the income pyramid since World War I in the United States. The fractiles are listed under the figure. (For example, 0-90 refers to all households with the exception of the upper 10 percent, and the fractile 99.99-100 refers to the top 1/10 000<sup>th</sup> of households with the most elevated income.) The logarithmic scale provides a clearer view of growth rates. The variables have been rescaled to 100 for the average of the period 1960-1973 when the growth rates of purchasing powers were almost the same for the various fractiles. The vertical continuous lines in 1933 and 1974 delineate the three social orders above; the dotted lines in 1960 and 2000 separate two sub-periods within the second and third periods.

Figure 1 – Average yearly income per household in seven fractiles (constant dollars, 1960-1973=100).



Source : Piketty and Saez 2003.

The succession of the three social orders above is clearly apparent in the trends of purchasing powers and income inequality. Beginning with the comparatively high levels of inequality prior to the New Deal, a dramatic reduction occurred during the first few decades (up to 1960) of the new compromise to the left; then, all purchasing power grew at similar rates. From about 1974 onward, a new spectacular diverging pattern is apparent, with skyrocketing high income and the income of the 0-90 stagnating (being even reduced). Both the historical profiles of wages and capital income are involved in these profiles.

The following are noteworthy. First, due to their comparative and rising importance, wages are a crucial component of the distinct trends in each period. Second, the income of the top income fractiles was dramatically reduced during the intermediate period, sometimes

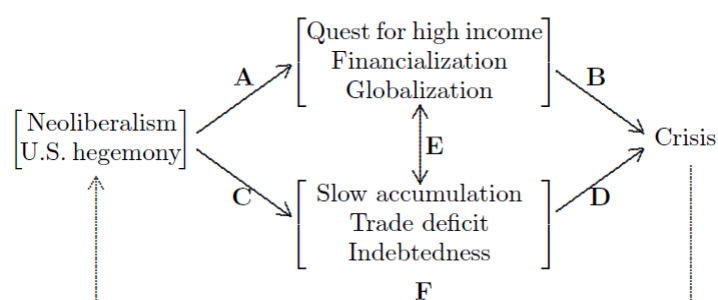
described as a “financial repression”. In neoliberalism, upper classes were able to increase both upper wages and capital income. This “return” of capital income seems to contradict its secular comparative decline but, despite its spectacular amplitude, this movement remained inferior to the rise of wages and confined within very small income brackets at the top.

## 2. The structural crisis of the early 21<sup>st</sup> century as class- and national-specific

In the *Communist Manifesto*, Marx compared capitalist classes to apprentice “sorcerers”. To the aim of increasing their powers and income—and pushed forward by the dynamics of accumulation and competition—these classes boldly innovate and remove all impediments to their action (as in deregulation); they periodically lose control of their magic. Marx described this inclination as a general feature of capitalism, and there is no doubt that credit and, more generally, financial mechanisms, are pushed to and finally beyond the limits during the recurrent phases of expansion. The crisis of neoliberalism is not any of the standard exercises in witchcraft, however, as during the phases of recurrent overheating and recession. Truly specific of the social order is the amplitude taken by these developments over various decades and across countries, as well as their sophisticated interrelations that conferred to the crisis its structural character.

The crisis is the crisis of *neoliberal capitalism*, not any form of capitalism and, even more specifically, the crisis of *neoliberalism under US hegemony*, as suggested in the left part of the diagram. In the phrase, “neoliberalism” accounts for the specific class character of the crisis. The words “U.S. hegemony” account for the particular US aspects of the process. This hegemony, in which the towering positions of US financial institutions and of the dollar are key elements, allowed for the continuation of the growing disequilibria of the US macroeconomic trajectory to the unsustainable levels of imbalance finally reached after 2000. No other country would have performed anything similar.

Figure 2 – A diagrammatic representation

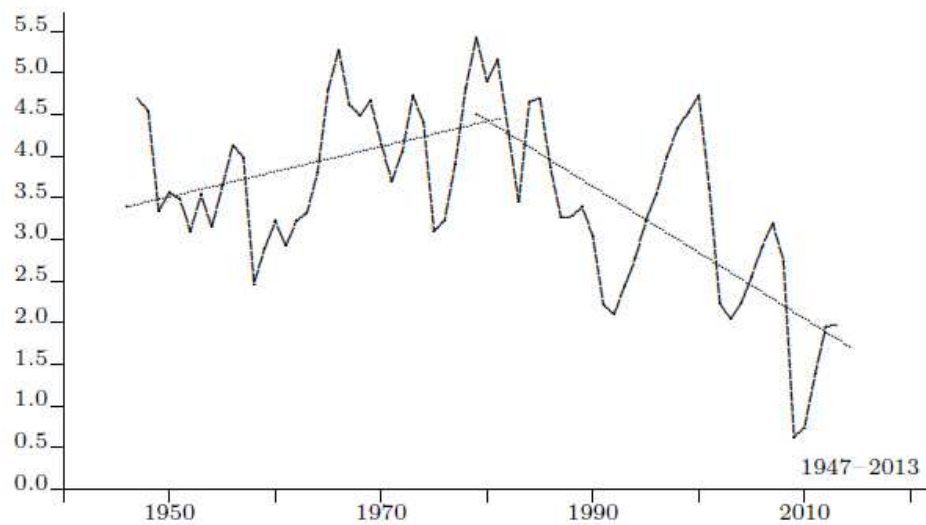


Returning to the chain of events, two basic categories of factors were involved. The upper part of the diagram in Figure 2 (following Arrow A) points to the “quest for high income”, meaning the eagerness of upper classes to restore and increase their income and wealth after decades of comparative setback. In a broad context of deregulation, the 1980s were a period of unchecked progress of financialization and globalization, in particular financial globalization. A lot has been written concerning financial instability inherent in the advance of financial mechanisms. Market mechanisms (the stock market, derivative markets, etc.) are center stage, but also the mechanisms supporting loans (such as securitization or credit default swaps). Important risks were also involved in the process of globalization, in particular the potential imbalance of foreign trade, the flows of short-term capital across the world, and the lost control of credit mechanisms and financial markets.

The lower block of factors (Arrow B) is more specifically typical of the U.S. economy:

- 1) With the new methods of managements and the rising flows of direct investment toward the rest of the world, the rate of capital accumulation dramatically diminished. The variable in Figure 3 is the share in GDP of nonresidential investment of the U.S. private economy. After 1980, a dramatic downward trend was substituted for the earlier rising trend.
- 2) A crucial determinant of the crisis was the deficit of foreign trade, reaching about 5 percent of GDP prior to the crisis. The excess of imports over exports results in a deficit of demand toward the enterprises located on national territory. These enterprises are at the origin of the flows of income resulting from production, under the forms of wages and capital income. This income should return to these enterprises when the purchasing power is used to buy goods and services. When, as a result of the deficit of foreign trade, a fraction does not go back to domestic enterprises, a deflationary chain of events is initiated. This is what happened prior to the crisis. Stimulation was required, under the form of a flow of new loans correcting for the deficient demand levels. The new borrowings could come from enterprises, the government, or households. In the US in those years, enterprises did not borrow to the aim of investment (another component of demand), only in support of financial activity. An even larger reliance on government's deficit was not in line with neoliberal policy options. The new borrowings came from households financed by mortgage loans.
- 3) A direct consequence of the growing deficit of the US foreign trade was the rise of debts. The "debt" of the country toward the rest of the world increased mechanically with the deficit. (The flows of financing from the rest of the world can also take the form of the purchase of stock shares, but new loans were the main channel.) The second debt was the rising debt of households, up to the unsustainable levels reached prior to the crisis.

Figure 3 – Share in GDP of nonresidential investment (percent): U.S. private economy.



Source: Bureau of Economic Analysis, Nipa.

The relationship between the two categories of determinants (Arrow E) is also important. For example, financial deregulation and the rise of financial institutions allowed for the upward trend of the debt of households and its new bold forms of refinancing by private-label issuers (besides securitization by Government sponsored enterprises). The Federal Reserve met with

growing difficulties in controlling interest rates, as financial globalization allowed US financial institutions to borrow from foreign (notably Japanese) banks.

The two sets of factors converged (Arrows B and D) during the second half of the 2000s, causing the crisis in the US economy. The crisis was rapidly exported to the rest of the world. First, many countries were themselves engaged to various extents in similar unsustainable practices. Second, a significant fraction of US bad securities had been sold to these countries.

The crisis unfolded as a stepwise process. A first phase can be dated to January 2006-July 2007, with the fall of building permits, home sales, home prices, and the beginning of defaults. The devaluation of the riskiest segments of Mortgage Backed Securities (MBSs) began. Between August 2007 and September 2008, the situation of U.S. financial institutions deteriorated, with liquidity problems and losses, but the crisis was still a US phenomenon. The most dramatic phase was September 2008-February 2009, with the multiplication of failures (notably Lehman Brothers), the contagion to the rest of the globe, and the contraction of output. The trough of the recession was reached by mid-2009 in the United States, while the default on household debt reached unprecedented levels. Stock-market indices plunged. The reaction of central authorities was rapid and strong: (1) The Federal Reserve engaged massively into the purchase of agency MBSs and supported the financial sector (loans and direct holdings), while federal funds rates had declined to levels close to zero, and (2) Government deficits exploded. Since 2010, a rather steady growth rates (about 2 percent) then prevailed in the United States, supported by the continued strong involvement of the government and the Federal Reserve, while the economy of the European Union (EU) went on stagnating, paralyzed by the attempt to correct government deficits in the absence of more profound transformations. Other countries in the rest of the world, like China, were hit by the recession in the old centers and then recovered.

### **3. The comeback of traditional Keynesian-Marxian interpretations**

The violence of neoliberal capitalism had already been a source of revival of the most critical analyses of capitalism (see Springer, this volume, Chapter 1). The occurrence of the crisis in 2007-8 prolonged these early assessments. The crisis is explained by basic tendencies inherent in capitalism, like: (1) financial instability; (2 and 3) a mismatch between aggregate supply and demand levels due to either (2) a deficient demand levels caused by a bias in income distribution or (3) excess supply on the part of enterprises; (4) declining profit rates, and (5) the historical recurrence of long waves. The return to the traditional analyses of crises in capitalism is sometimes asserted vigorously, as a refutation of approaches describing the crisis as the “crisis of neoliberalism” (rather than capitalism). In our opinion, the crisis must be understood in reference to “neoliberal managerial capitalism”, and abstraction should not be made of the specific features of this form of capitalism.

The boundaries are not easy to draw between various trains of thought as, for example, the reference to Keynesian financial instability is directly evocative of Marx’s analysis of fictitious capital; similar views concerning deficient demand levels are typical of the two trains of thought, though the particular mechanisms may be distinct.

- 1) *Financial instability*. There is no surprise in the resurgence to the fore of “financial instability” as a crucial determinant of crises, a factor whose relevance is unquestionable. Within the Keynesian train of thought, reference is often made to Minsky’s analysis of the pattern of cumulative rise, sudden reversal (the Minsky point), and collapse, typical of financial markets. Examples are Paul Krugman (2008) and Paul Davidson (2009), pointing to the rise of financial mechanisms and deregulation. The analysis of Joseph Stiglitz (2010) emphasizes the mistaken macro policy undertaken in response to the 2000-

1 recession (and in the wake of the collapse of the stock market). The Federal Reserve drastically diminished the interest rate and, thus, fed the housing bubble that the greed of financial institutions contributed to inflate resorting to highly risky procedures.

Among Marxist economists, even if the terminology is distinct, the core analysis hinging around the risks inherent in the accumulation of fictitious capital, that is, financial assets is in line with the above (Chesnais 2014).

At a general level of analysis, we have no disagreement with the emphasis on financial mechanisms, deregulation, and mistaken macro policies. They were all part of the 2008 crisis. But the class determinants, accounting for the prevalence of these stubborn trends during more than three decades of neoliberalism, should not be overlooked.

- 2) *Deficient demand as accounting for the low levels of utilization of productive capacities.* Typical of the Keynesian train of thought but also Marxist perspectives is the reference to deficient demand levels. The origin of the mismatch between supply and demand is located on the demand side, as an effect of the low share of wages and/or its declining trend (Shaikh 2011, Valle 2008). The argument rests on the notion that wage earners spend a larger share of their income than capitalists. Two difficulties are involved: (1) In the United States, the share of wages did not decline prior to the crisis; and (2) As already stated in Section II, a basic feature of the period preceding the crisis was the excess demand (as manifest in the excess of imports on exports), not deficient demand. More sophisticated interpretations are, therefore, required. A substitute for the first objection above could be the consideration of upper income (profits and wages) fractiles, instead of profits alone. Empirical data shows, however, that the recipients of upper incomes diminished even more their savings prior to the crisis than the lower strata (Saez and Zucman 2014). As a reply to the second objection, it is typically answered that the problem was not the lack of actual demand but the lack of demand financed out of income, a deficiency that caused the borrowing spree compensating for the deficient purchasing power of households. (In other words, consumption and investment were high but their financing perilous.) A first counter-argument is that, in the history of capitalism, the needs of the poor segments of the population never pushed banks to lend without sufficient guarantees. Moreover, these interpretations forget that the control of the volumes of borrowing is a basic function of monetary policy. Up to the very last moments, the upward trends of household borrowing were a deliberate policy on the part of the Federal Reserve intending to counteract the effect of the deficit of foreign trade (given the refusal to allow the deficit of the government to perform the tasks). The key role played by the deficit of foreign trade is precisely what is overlooked in these analyses.
- 3) *Overaccumulation.* Symmetrical, or used in combination with the above, another reading of the crisis points to an autonomous tendency toward overaccumulation (over-supply), a traditional Marxian contention. US enterprises allegedly went on increasing their productive capacities independently of the actual levels of demand (possibly as a consequence of competition or rapid technical change).<sup>iii</sup> It is, however, difficult to imagine why US enterprises maintained this puzzling behavior during several decades without adjustment. The downward trend of the capacity utilization rate in manufacturing industries is put forward to support this interpretation. We have serious doubts concerning the relevance of this empirical foundation as, taken at face value, the low levels of the capacity utilization rate during the 1990s would imply that overaccumulation was already a feature of the period, when the US economy was growing at rates of about 4 percent (during the boom of new technologies). Finally, the analysis of delinquencies on loans clearly demonstrates the quite unusual pattern observed prior to the 2008-9 recession, as



the delinquencies on industrial loans did not increase before the recession (as in usual cycles) while the delinquencies on mortgage loans exploded.

- 4) *Declining profit rates.* As the crisis of the 1970s had been a profitability crisis, numerous Marxist economists prolonged this analysis to the new crisis. A crucial issue was therefore the calculation of profit rates, with the usual problems met in the definitions of profits and capital. There is actually a huge gap between: (1) profit rates measured using a very broad definition of profits (total income minus labor compensations) divided by the stock of fixed capital (at replacement cost) and, (2) the “rate of retained profits”, that is profits after paying out taxes, interest and dividends, divided by enterprises own funds (Duménil and Lévy 2011, Figure 4.1). The profit rate in the first broad measure partially recovered after the decline that caused the crisis of the 1970s. Subtracting all taxes, the profit rate recovered its levels of the 1960s (as profit taxes were diminished<sup>iv</sup>). It is actually the increased flow of dividends in neoliberalism that caused the decline of the retained profit rate, that is, a tendency inherent in neoliberal management procedures. This decline was a crucial factor in the downward trend of investment in Figure 3, but did not cause the crisis. (The housing crisis began in 2006 and was later transformed into a recession.) In a profitability crisis, like during the 1970s, capitalism “sinks” because profits are the oxygen of capitalist corporations, and there is no significant financial component. In a crisis like the 2008 crisis, capitalism “explodes” as financial mechanisms play an important role.

A symmetrical line of argument is sometimes put forward by Marxist economists, pointing to a restoration of the profit rate prior to the crisis, pinned on a decline of the share of wages (Moseley 2009, Shaikh 2011, and Husson 2012). (See the discussion above concerning the wage share.)

- 5) *Long waves.* A special emphasis must be put on interpretations hinging around the theory of long waves or Kondratieff cycles, with often a clear reference to the historical framework developed by Fernand Braudel. Capitalism goes through long phases of expansion that culminate in episodes of financialization, as a manifestation of the depletion of profitable opportunities in the nonfinancial sector (Arrighi 1999). Then, a long phase of decline occurs. The causes of the depletion of nonfinancial investment opportunities is pinned on various mechanisms evocative of overaccumulation, but not with precise contents. In the case of Emmanuel Wallerstein, the crucial factor is the rise of costs (energy, labor, and the like) whose final outcome will be the extinction of capitalism (Wallerstein 2000).

#### **4. A broad Agenda: Exiting the current crisis, avoiding a new crisis, remedying the current stagnating growth, and restoring the US international hegemony**

From the viewpoint of its class objectives, namely the restoration of the power and wealth of upper classes, neoliberalism was amazingly successful (Section I). Concerning the US economy, the consequences were, however, devastating (Section II). A major crisis occurred, threatening the continuation of the entire endeavor; neoliberal trends were at the origin of a more than three-decade long decline of investment rates on U.S. national territory, when other countries were forging ahead. The already weakened US international hegemony is at risk. Thus, the program for the coming decades is clearly set out. Macro policies are central, but one cannot remedy a structural crisis only by the Keynesian stimulation of demand:

- 1) Stabilizing the economy—consolidating the aggregate economy (still supported by government deficits)—that is, really going out of the current structural crisis, and avoiding the repetition of major crises in the future.



- 2) Stimulating investment and growth, what implies forms of re-territorialization of industrial production, notably within key industries.
- 3) Restoring the US international hegemony (conditioned by the two previous requirements), notably perpetuating the domination of the US network of financial institutions worldwide in the structure of “Anglo-Saxon neoliberalism” (Duménil and Lévy 2014, Ch. 7). This is where the relationship between the class and international components is the closest (a reciprocal relationship). Obviously the role of the dollar is crucial.

A first issue is the political motivation. A sharp difference between the US and Europe is that, within the EU or the euro zone, there is no national feeling, since there is no European nation. The project of continental integration was the product of the consciousness, after the devastations of the two World Wars, of a common cultural heritage and solidarity, but the differences between countries remain of considerable import as evident in the treatment (or absence of treatment) of the crisis. Policies in Europe are clearly in line with basic orthodox tenets, like the downward pressure on labor costs and the eagerness to “tranquilize” the banks holding government securities by cutting government deficits. Nothing that would allow Europe to move forward. Conversely, in the US, the “national factor” plays a central role, and the consciousness of the necessity of safeguarding the international hegemony of the country may provide sufficient grounds for the establishment of a new course. Actually, the process is already under way.

A second issue is the social-political nature of the endeavor, knowing that we refer here to on-going trends from the viewpoint of upper classes, and not to what “should”, in our opinion, preferably be undertaken. A strong involvement of central authorities, notably the government and the Federal Reserve, is required. No private institution, no “market” can perform the task, and the conduct of such policies implies a significant break from neoliberal ideology and practices. The new course of events is typical of what can be called “administered neoliberalism”, at odds with the classical liberalism of free markets. Principles and methods are, however, much less important than the class foundations and objectives of the social order, in particular when the international domination of the country is involved. There is clearly a class component in the definition of these new directions as government officials—a segment of managerial classes and a component in the alliance at the top—play a central role (a new New Deal politically oriented to the right). The action of high officials within central institutions was and is still central in the treatment of the crisis. They should play a prominent role during the coming decades. If they don’t, the objectives will not be reached.

A third issue is the contents:

1. *Regulating financial mechanisms.* A law, the Dodd-Frank Act, was voted in the wake of the crisis to place limits on the action of financial institutions. Its implementation was, to a large extent, blocked by the Republicans. One thing is clear, the volume of transactions on derivative markets did not diminish with the crisis, and the threat of a new financial crisis is still there.
2. *The competitiveness of the US economy.* The target here is the re-territorialization of industry with, notably, the objective of remedying the deficit of foreign trade. In the lower segments of employment, workers are available to work at a very low cost and deprived of basic social protection. Active policies stimulated the use of shale gas as a source of energy, with dramatic effects on the cost of energy. Given the differences in productivity worldwide (and including the cost of transportation), the costs of one unit of production in manufacturing industries in the United States and China have now converged (Sirkin, Zinser, and Rose 2014). These new achievements are of utmost importance, since most of

foreign trade is a trade of manufactured goods (despite the increase of US exports of services). To these, one must add the new forms of hidden protectionism (notably by the definition of technical norms to which imports are subjected, Evenett 2013)<sup>v</sup>, and industrial policies in favor of specific industries (in new technologies). As of 2014, an examination of the latest data shows that the deficit of foreign trade still amounts to 3 percent of GDP, compared to the 5 percent observed prior to the crisis.

3. *Macro policies.* Since the 2009 recession, a growth rate of about 2 percent has been maintained, but the deficit of the government still amounts to 6 percent of GDP, that is, levels are that are typical of the trough of recessions. The Federal Reserve is fully committed to the restoration of the economy, holding a huge stock of Treasury and Government sponsored enterprises securities to the aim of diminishing long-term interest rates. Nonetheless, the private sector is still paying back its debt instead of borrowing, and the downward trend of investment has not been inverted. To date, no autonomous (unsupported) restoration of the aggregate economy has been achieved. These policies guarantee to the US economy a form of “reprieve”. The key issue will be the continuing involvement of central authorities in the future and the resistances concerning corporate governance (foreign investment abroad, lavish flows of dividends, extravagant “compensations” at the top, and the like).
4. *Taxation.* The Foreign Account Tax Compliance Act (FATCA) constrains US citizens (even living outside of the country) to report their accounts in the rest of the world, and foreign financial institutions to inform the Internal Revenue Service of the existence of these assets. To what degree the device will be extended to the world and prove efficient remains to be determined. Major countries have signed agreements with the US, though neither Russia nor China, but the number of tax havens in the list is impressive. Contrary to the measures above, the new controls could be detrimental to rich individuals forced to pay taxes. But remedies must be found to the deficit of the government.

In the abstract, the potential inherent in the new policies seems unquestionable. Other countries are, however, also active and may improve their own competitiveness as fast as the US economy, or even faster (notably with respect to patents and the price of energy). The class interests inherent in neoliberalism place major limits on policies in most if not all of the above respects, and the contradiction between class and territorial objective is acute as clearly demonstrated during the first neoliberal episode prior to the crisis. Strengthening the situation is really a challenge.

## 5. Historical prospects

Returning to the general framework of Section I—relations of production and class struggle—the political implications of the above are obvious and of historical import. At the beginning of the 20<sup>th</sup> century, the US assumed a clear leadership in the transition from the traditional capitalism of the 19<sup>th</sup> century to managerial capitalism (in the corporate, managerial, and financial revolutions). The capability of the United States to lead the path in the establishment of the new institutions of managerial capitalism was the main determinant of the international hegemony of the country during the 20<sup>th</sup> century under the new forms of Wilsonian informal imperialism (as opposed to traditional colonial empires).

At stake in the early 21<sup>st</sup> century, are the political options governing the trajectory toward most advanced forms of managerial capitalism. Two options are opened: (1) a course evocative of the post-depression *path to the left* that commanded the reduction of inequality (the opposite of the rise at the top); and (2) a movement *along the right branch* of the bifurcation as in neoliberalism. The first option failed during the 1970s. The crisis of

neoliberalism was hastily interpreted by analysts in the left, as the failure of the second track. Can the conduct of the second post-crisis episode turn this failure into success, thus demonstrating the compatibility of class and territorial hegemonies? One can have serious doubts given the amplitude of the task to be accomplished and the obvious resistances to the required adjustments that can be expected on the part of upper classes. These are the domestic contradictions, but the external contractions are also acute. Will Europe remain staggering at the cross-road with the consolidation of conservative policies or is there a chance for a left turn on the old continent? And what of China—the other champion of the “national factor” and the country of the tightest alliance-merger between capitalists and government officials—an obvious candidate for a new global hegemony?

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<sup>i</sup> In the remainder of this study, we will only exceptionally refer to our earlier work. Specific contributions are: Duménil and Lévy 2001, 2011, and 2014.

<sup>ii</sup> We will not discuss here the implications of this “managerial hypothesis” concerning the struggle for the emancipation of humanity, as necessary as ever and neither less nor more impossible than before.

<sup>iii</sup> As in David Kotz’s reference to overinvestment (Kotz. 2009).

<sup>iv</sup> Robert Brenner (2009) only subtracts indirect business taxes from profits and, consequently, finds a declining trend of the profit rate, to which the crisis is imputed.