THE NATURE AND CONTRADICTIONS OF NEOLIBERALISM

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RÉSUMÉ

LA NATURE ET LES CONTRADICTIONS DU NÉOLIBÉRALISME

Cette étude donne une interprétation de l'histoire du capitalisme (depuis le milieu du XIX[e] siècle) dans un cadre analytique marxiste traditionnel. Il combine les références: (1) aux forces productives et rapports de production, aux structures de classes et aux diverses configurations du pouvoir; (2) aux tendances historiques et aux crises structurelles. Le néolibéralisme est analysé comme une nouvelle configuration du pouvoir de classe: la réaffirmation du pouvoir et des revenus des propriétaires capitalistes, alliés à la fraction supérieure des gestionnaires, après les décennies de *répression financière* qui firent suite à la crise de 1929, et après la chute des revenus et des patrimoines des classes dirigeantes au cours de la crise structurelle des années 1970. Quatre ensembles de contradictions, susceptibles de mettre en question l'avenir du néolibéralisme, sont ensuite examinés. Il s'agit des capacités: (1) à maintenir un compromis social suffisamment étendu, dans un contexte de forte inégalité; (2) à assurer la stabilité de l'économie (éviter les crises), dans un cadre conçu pour garantir à la finance les moyens de se libérer de tout engagement; (3) à permettre une accumulation et une croissance suffisantes (dans les principaux pays capitalistes et non exclusivement aux États-Unis du fait de leur position hégémonique), alors que les profits sont littéralement pompés hors des entreprises et non réinvestis; (4) à entretenir un flux continu et performant d'innovations techniques. Indépendamment des formes douces ou violentes de la transition, on met finalement en doute la capacité du néolibéralisme à se montrer à la hauteur de ces tâches à long terme.

ABSTRACT

THE NATURE AND CONTRADICTIONS OF NEOLIBERALISM

The history of capitalism (since the middle of the 19th century) is interpreted using a traditional Marxist framework, combining: (1) relations of production and productive forces, class patterns, and power configurations; (2) historical tendencies and structural crises. Neoliberalism is described as a new power configuration, the reassertion of the power and income of capitalist owners, in alliance with top management, following decades of financial repression after the Great Depression, and the decline of the income and wealth of the ruling classes during the structural crisis of the 1970s. Four sets of potential contradictions, which might challenge the future of neoliberalism, are then examined, the ability: (1) to maintain a broader social compromise in a context of sharp inequality; (2) to stabilize the economy (to avoid crisis), in a framework structured to allow finance to withdraw from any commitment; (3) to ensure adequate accumulation and growth (in major capitalist countries, not uniquely in the US as an expression of their hegemonic position) when profits are "pumped" from corporations and not plowed back; (4) to maintain a continuous flow of efficient technical innovation. Independent of the soft or hard nature of the transition, we finally question the capability of neoliberalism to measure up to these tasks in the long run.

MOTS CLEFS : Néolibéralisme, finance, crise, politique monétaire, taux d'intérêt, matérialisme historique.

KEYWORDS : Neoliberalism, finance, crisis, monetary policy, interest rates, historical materialism.

J.E.L. Nomenclature: E6.

Introduction

A sudden change in the rules governing the functioning of capitalism occurred at the end of the 1970s. This change can only be understood in relation to the deterioration of the economic performances by the major capitalist countries during the 1970s, and the failure of the initial set of policies which had been enacted in order to stem the deterioration. The slowdown in the growth of labor productivity, lower accumulation and growth rates, rising unemployment, the increase in overheatings and recessions, and inflation defined the contours of what can retrospectively be called *the structural crisis of the 1970s and 1980s*. The Keynesian policies which had contributed to the prosperity of the 1960s were first put into action, but accelerating inflation undermined the adequacy of these remedies. The growing difficulties of the so-called socialist countries freed the ruling classes of capitalist countries from a fundamental political concern. These developments created the conditions for a sharp reversal of policies which occurred at the end of the 1970s. A prominent element in this transformation was the change in monetary policy in 1979, the dramatic rise of interest rates in the last year of the Carter Administration. Rapidly, with the election of Margaret Thatcher in the United Kingdom and Ronald Reagan in the US, the overall political import of the new course became clear: repression of workers' claims for better living standards and working conditions, attack against the welfare state, acceptance of unemployment, deregulation (in particular concerning financial activities), etc. More than "policies" in the narrow sense of the term were at issue. This new framework of rules, to which the functioning of capitalism was subjected, is now known as *neoliberalism*: a return to liberalism in a new configuration, after years of *Keynesianism* (sometimes described in the US as the reign of the *New Deal coalition*).

After twenty years of neoliberalism, how can its performance be assessed? The costs of neoliberalism in terms of unemployment were huge. In a first phase, it prolonged the effects of the structural crisis. The unemployment rate culminated in the US in the mid-1980s; an even more lasting wave of unemployment developed in Europe. The Third World was devastated by the debt crisis; monetary and financial institutions were shaken even in the US; large monetary and financial crises signaled a new financial instability in the world economy. A speculation grew in the stock markets of large capitalist countries, adding to the present threat of financial collapse. Indeed, today, inflation is down. The unemployment rate declined gradually in the US, until it reached the levels of the 1960s. Since the last few years a similar decrease is underway in Europe. Despite the present threat of recession, growth is an object of pride in the US and the envy in other countries. The speculative bubble is now shrinking and the threat of a major collapse did not materialize to date.

In the overall assessment of neoliberalism, much complexity is created by the hierarchy between various countries, the US, Europe, Japan, and the periphery. Why was unemployment more severe in Europe than in the US? In the growth of the US economy during the second half of the 1990s, what is basically at issue: the virtues of neoliberalism after a period of transition, or US hegemony? Or to frame the question differently: Can the "performances" of the US be generalized to a broader set of countries?

This paper concerns *neoliberalism*, neoliberalism under US hegemony: its place in the history of capitalism, the social significance of the new rules that it imposes, its damages and the associated risks, its *future*. We already discussed elsewhere the costs and benefits of neoliberalism.[1] Its resilience is certainly the most difficult issue to tackle. Can we detect within neoliberalism *internal contradictions* questioning its ability to survive, both economically and politically? In other words, what is the nature of the new order of capitalism: a mere transition made possible by the crisis and the defeat of the labor movement, or does it define a new era? Symmetrically, these questions raise the issue of the interpretation of Keynesianism. Were the Keynesian years an exception following the Great Depression or did they suggest the possible contours of another capitalism, or even a first step of capitalism beyond its own rules? Thus, the definition of capitalism, those of Keynesianism and neoliberalism, are simultaneously at issue in this discussion.

This paper must be understood as a contribution to a broad, very ambitious, debate. It addresses two types of issues:

1. A first section is devoted to explaining the dynamics of capitalism, its periodization, and the interpretation of neoliberalism. The perspective is that of the Marxist analysis of history, what used to be called *historical materialism* (relations of production and productive forces, classes and class struggle, and the state), and Marx's economic analysis in *Capital* (historical tendencies, crises, money and finance, etc.). The periodization of capitalism underlying this investigation combines three levels of analysis: (1) the transformation of the relations of production (the ownership and control of the means of production); (2) the historical tendencies of technology and distribution (notably the trends of the profit rate); (3) the succession of specific power configurations, the domination of various fractions of the ruling classes and their compromises with other classes. We broadly characterize *neoliberalism* as a specific power configuration, the reassertion of the power of capitalist owners, after years of financial repression — a new discipline imposed on all other classes, managerial and clerical personnel as well as productive workers, but also attempts to implement a new social compromise.

2. The second part discusses various fields in which the sustainability of the neoliberal order could be questioned in the long run depending on the capability of neoliberalism: (1) to establish a new social compromise (to associate broader social strata to the growing prosperity of the few, really or fictitiously) in an environment of rising inequality; (2) to ensure the stability of the economy (to avoid various forms of crisis: recession, and monetary and financial crises); (3) to ensure significant accumulation and growth: (a) to finance sufficient accumulation in a system where profits are largely distributed to rich households (*via* interests payments and dividends) and, to date, are not plowed back into nonfinancial corporations; (b) to broaden, at least minimally, the benefits of the new social order outside of the US (to prove that these benefits are not exclusively the outcome of US hegemony); (c) to maintain a steady growth beyond the gradual reabsorption or bursting of the financial bubble; (4) to prolong the more favorable trends of technical change apparent since the mid-1980s.

A concluding part briefly outlines the possible future of neoliberalism, the more or less realistic forms of its perpetuation and possible alternatives, the condition of its sudden or gradual disappearance, and the compatibility of neoliberalism with the continuing transformation of the relations of production.

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1. G. Duménil, D. Lévy, *Crise et sortie de crise. Ordre et désordres néolibéraux*, Paris: Presses Universitaires de France (2000); "Costs and Benefits of Neoliberalism. A class analysis", *Review of International Political Economy*, 8 (2001), p. 578-607.

Despite its broad perspective, the paper should not be understood as a *thorough* criticism of capitalism. Instead, its scope is limited. We never relate the pursuit of growth and technical change to the preservation of the planet, and the rule of capitalist owners to the misery of many countries of the periphery, to gender and race exploitation, or to the gradual assertion and diffusion of ways of life and ideologies along lines which will be extremely difficult to reverse.

1 - A historical perspective

Section 1.1 defines the Marxist features of the general framework of analysis. The application of these principles to the dynamics of capitalism is presented in section 1.2. Section 1.3 is specifically devoted to the late phase of capitalism and the interpretation of neoliberalism. Although the following principles and conclusions can be applied to a broader field of analysis, the presentation, in particular in section 1.2, is basically related to the history of the US since the Civil War.[2]

1.1 A Marxist framework of analysis

At the center of Marx's and Engels' interpretation of history, as expressed in the *Communist Manifesto*, are the grand dialectics of productive forces and relations of production. Relations of production may, alternatively, stimulate or inhibit the development of productive forces, and the development of productive forces creates the conditions for the transformation of relations of production (what is repeatedly called, in the *Manifesto*, the change of *institutions*). This framework is applied twice: to the transition between feudalism and capitalism, and to the development of capitalism itself (announcing the passage to socialism).

Each configuration of relations of production corresponds with a specific class pattern. This is obviously true in the comparison between feudalism and capitalism, but also holds along the various phases of a given mode of production. For example, the rise of the banking system and, more generally of financial capital, is reflected in the maturation of a specific fraction of the ruling classes.

This division of the ruling classes into various fractions is particularly clear in the *18th Brumaire*, where it plays an important role. There, Marx distinguishes between *land owners*, *the aristocrats of finance*, and the *large industrialists*. Together, they govern under various *regimes*, what we call *power configurations*: the Restoration, the Monarchy of July, the Republic, or the Empire. They can rule jointly (as in the Republic or Empire) and possess a larger (as in the Republic) or narrower (as in the Empire) degree of freedom to express openly their internal contradictions. The hegemony of one specific group can be more (as in the Restoration and Monarchy of July) or less clear. More generally, because

2. A more detailed analysis can be found in G. Duménil, D. Lévy, "Periodizing Capitalism. Technology, Institutions, and Relations of Production", *in* R. Albritton, M. Itoh, R. Westra, A. Zuege (eds.), *Phases of Capitalist Development: Booms, Crises, and Globalization*, London: Palgrave, 2001, p. 141-162, ch. 9.

of the always gradual character of the transitions between various modes of production, as between feudalism and capitalism, the ruling classes of successive modes of production may coexist (as under the Old Regime). In such configurations, the nature of the various groups is evolving and hybrid forms may exist.

In these historical dynamics, *class struggle* is crucial. In the broad sense of the term, it includes both the opposition between ruling classes and dominated classes, and the tensions between the various fractions of the ruling classes. The state is the organized expression of these power configurations, the locus of their formation and preservation, and the instrument of coercion that goes with this power.

Concerning the economics of capitalism, Marx developed in *Capital* the thesis that technical and distributional changes, under capitalism, tend to follow specific patterns of evolution, which we call *trajectories à la Marx*. These trajectories combine: (1) the growth of output, capital, and employment; (2) the rise of labor productivity, the real wage, the capital-labor ratio (various *compositions of capital*), and the decline of the profit rate. (These movements occur at declining rates of variation.) These tendencies express the difficulty to sustain the progress of labor productivity without resorting to increased amounts of capital investment (what we call the *difficulty to innovate*). The decline of the profit rate creates the conditions for large crises: recessions, unemployment, speculation...[3]

This analysis is closely related to the above historical framework. Although Marx had not developed these tools when he wrote the *Communist Manisfesto* with Engels, the existence of historical tendencies accounts for the recurrent structural crises and business-cycle fluctuations in capitalism. In various respects, Marx's *Capital* makes explicit the basic insights of the *Manifesto*, and its catastrophic assessment of the future of capitalism.

1.2 The dynamics of capitalism

1.2.1 The ownership of the means of production, management, and modern finance

Central to capitalist relations of production is the *private ownership of the means of production*. This includes simultaneously: (1) ownership in the narrow sense of the term, the power to purchase and sell means of production, including labor power, and (2) the right and capability to manage them. This fundamental relationship was profoundly altered at the end of the 19th century. The main development, whose early forms had already been analyzed by Marx, was the separation between ownership and management (the two above components), and the concentration of ownership within financial institutions. These transformations cannot be separated from the emergence of modern finance:

1. These transformations of capitalist ownership reached new heights in the US in the wake to the structural crisis of the 1890s. This structural crisis followed a period of decline of the profit rate. It degenerated into a crisis of competition, with enterprises attempting to

3. We analyzed these mechanisms, in particular the patterns of technical change and the relationship between declining profit rates and crises in previous works (G. Duménil, D. Lévy, *The Economics of the Profit Rate: Competition, Crises, and Historical Tendencies in Capitalism*, Aldershot: Edward Elgar (1993); "Technology and Distribution: Historical Trajectories à la Marx", *Journal of Economic Behavior and Organization*, 52 (2003), p. 201-233). See also: D. Foley, "Endogenous technical change with externalities in a classical growth model", *Journal of Economic Behavior and Organization*, 52 (2003), p. 167-189.

stem the collapse of their profit rate by various forms of horizontal agreements. This was the period of cartels and trusts. The antitrust legislation forbade any form of agreement in which firms were preserved as independent entities sharing, for example, markets or profits. Simultaneously, the corporate legislation was enacted allowing mergers and the formation of holdings. A huge merger wave followed exactly at the turn of the century, known in the US as the *corporate revolution*.

2. Within corporations, management was delegated to large pyramidal business staffs of managerial and clerical personnel. They undertook what Marx used to call the *functions of the active capitalist*, *i.e.*, in contemporary terminology, *management* in a rather broad acception of the term (actually all unproductive labor). These functions are those required by the maximizing of the profit rate. This second transformation is known as the *managerial revolution*.

3. Large corporations were formed under the control of finance, whose modern configuration — consisting of financial institutions tightly linked to nonfinancial corporations — was simultaneously emerging.[4] It was accompanied by a dramatic development of financial mechanisms, a huge wave of "financial innovation". Paralleling the rise of credit mechanisms, beyond the mere financing of transactions, the amount of money increased tremendously, in particular, bank accounts.[5] Although the term is not used, one could refer to a *financial revolution*.

This configuration of the capitalism of the 20th century represented a considerable transformation of the capitalist relations of production. Marx designated this process as the *socialization* of production (in contrast to relations adequately personalized by individuals such as the individual owner-manager). This social trait of capitalism was constantly reinforced along the 20th century. Within contemporary neoliberalism, it reached new degrees with the development of huge financial institutions, such as mutual and pensions funds, and the transfer of capitalist tasks to salaried personnel. The managerial revolution has now reached the core of the capitalist system: *i.e.*, finance.

1.2.2 Accumulation, the purchase of labor power, and the macroeconomy

In addition to ownership (in the juridical sense of the term) and management, there are also "macroeconomic" components to the capitalist exercise of the private ownership of the means of production. Two major aspects must be identified:

1. In a capitalist economy, capital accumulation can require the previous savings of profits, but it can also be "created" by the banking system, *via* credit mechanisms and the corresponding issuance of money. The total amount of this creation is crucial since inflation may result from excess credit, and capital in the form of securities and cash can be devalued.[6] More generally, independent of its destination, accumulation or consumption, excess credit poses a threat to previously accumulated capital, both by inflation and the possible destabilization of financial institutions.

2. In the control of the valorization of capital (a component of management), the purchase of labor power (one of the various commodities among the means of production) is of

4. Hilferding analyzed one of its possible configurations (R. Hilferding, *Finance Capital: A study of the Latest Phase of Capitalist Development*, London: Routledge and Kegan Paul, 1981 (1910)).
5. G. Duménil, D. Lévy, *La dynamique du capital. Un siècle d'économie américaine*, Paris: Presses Universitaires de France (1996), ch. 22.
6. There is also a problem concerning the allocation of this capital among capitalists.

particular importance. As analyzed by Marx, the *periodical repletion of the reserve army* plays a central role in the determination of the cost of labor, hence of profits, imposing periodically strong pressures on wages tending to compensate for their rise during periods of overheating (*overaccumulation*).

Capitalism gradually developed centralized institutions and mechanisms charged with the control of the macroeconomy, with major consequences on the issuance of money, the level of activity, and employment. The *centralized* macro policies actually modified the exercise of the private ownership of the means of production, in the direction of an increased *socialization*, as in the case of juridical ownership and management. The emergence of such mechanisms raises the issue of their actual *targets*. In whose interest are they working?

In the late 19th century, this control was ensured by large private financial institutions (in the US, mostly large New York banks in the *National Banking System*). The main concern was the constancy of the purchasing power of money in gold and the stability of the financial system.[7] The stabilization of the macroeconomy became gradually an objective *per se*. The shock of the Great Depression and World War II opened the era of Keynesianism with an involvement of the state (the central bank) and new targets. This was viewed by the capitalist class as an encroachment on its power, since these targets were affected, with some debate about price stability (the preservation of accumulated capital) or full employment. The recognition of the right to work and the welfare state after World War II considerably modified the wage relation, as labor power was gradually less and less treated as an ordinary commodity. The earlier objectives of finance were restored within neoliberalism with the a renewed contempt for unemployment and the compelling concern for price stability. There is and there will be no reversal in the assertion of this "macroeconomic" component of the private ownership of the means of production, only the targets are at issue.

1.2.3 The maximizing of the profit rate

The profit rate is a key variable in the functioning of capitalism. The *maximizing of the profit rate* allows, in its own way, for a number of necessary economic tasks. It guides: (1) the efficient use of inputs and resources; (2) the selection, by firms, of the most profitable techniques; (3) the choice between various fields of investment (firms and industries) depending on differential profit rates. To this, one can add the efforts to stimulate demand by individual firms.

There is an important political component embedded in the undertaking of these functions. In particular, in the first function (saving on resources), are implied: (1) the forms and degrees of the pressure exercized on workers, given their resistance and existing regulation, and (2) a similar relationship concerning environment, the rules regulating its preservation (given resistances from various fractions of the population). There is obviously an international aspect to this search for profits, which accounts for the *imperialist* features of the leading capitalist countries (their rivalry and domination over the periphery).

The capitalist nature of relations of production is the expression of the stringency of the maximizing of the profit rate, but it also depends on: (1) the contours of various fields partially insulated from the profitability criterion (defense, education, health, research...); (2) the private appropriation of the surplus as the income of a class of owners; (3) the

7. To avoid bankruptcies, financial panics, and the suspensions of payments.

concentration of wealth among the few; (4) the control of regulations and policies (as particular components of the general functions of the state), macro policies, taxation (the taxation of firms and upper income brackets), etc.

1.2.4 Classes and power configurations

The transformation of relations of production described in the previous three sections is connected to the parallel evolution of class patterns.

The managerial revolution resulted in the rise of the so-called *new intermediary classes* of managerial and clerical personnel, distinct from the traditional petty bourgeoisie. The transfer of the capitalist functions to salaried workers was, however, realized in a highly "polarized" fashion, with the concentration of conception, initiative, and authority at the top of the hierarchy (managerial personnel), and execution of tasks at the bottom (clerical personnel). *This polarization represents a new class relation.* This opposition is distinct from the separation of the capitalist owner from the productive worker as understood from Marx's analytical framework in *Capital*. As the delegation of capitalist functions progressed, the distance between the productive worker and the labor process was further increased.

The complexity of the contemporary class pattern of capitalism is the expression of the coexistence of these fundamental class contradictions:

1. Between capitalists and productive workers — the traditional capitalist relation.

2. Between managers and all categories of "managed" workers, productive and unproductive — a new class contradiction.[8]

Thus, two classes (fractions of the ruling classes) coexist (cooperate and fight to various degrees). On top of the social hierarchy, are capitalist owners and managers, just like the aristocrats and bourgeois in the Old Regime, described by Marx.

The power of the ruling classes is usually tempered by compromises. Two aspects can be distinguished within such compromises, concerning the content and extension of:

1. The cooperation among the fractions of the ruling classes (such as management and capitalists). There is an *interface* between these classes, the world of boards of directors where owners still engaged in some form of management and top managers, owners to certain degrees, collaborate. This interface is crucial to the preservation of a type of capitalism where ownership and management are basically separated.

2. The compromise with broader fractions of the population. At issue are the participation of larger sections of salaried workers to prosperity when its exists, and the stringency of the discipline imposed recurrently on these groups, etc.

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8. Our reference to a *Marxist framework of analysis* can be seen as a combination of *fundamentalism* and *revisionism*. The consideration of new class patterns is a central element of this revisionism. The analysis of exploitation and the relationship between productive and clerical workers is typical of the problems faced by contemporary Marxism. Two basic attitudes can be distinguished: (1) a strict adherence to Marx's framework — surplus-value is extracted from production workers (when this difficulty is not simply ignored, other groups are classified as *petty bourgeois*); (2) an implicit revision — a new proletarian or worker class is defined including production and clerical workers. Our viewpoint is closer to this second attitude, but we make explicit the conceptual leap that it implies.

As recalled in section 1.1, the state is the locus of the formation and preservation of power configurations. This is true of the cooperation among the fractions of the ruling classes, as well as of the compromise with broader segments of the population.

The degrees of *hegemony* and *compromise* exercised by capitalist owners is of primary importance in the definition of power configurations. Since the beginning of the 20th century, the emergence of modern finance and the delegation of management to salaried personnel, the hegemony of capitalist owners can be described as that of *finance*, meaning by this, financial institutions and individuals holding large financial portfolios of securities.[9] This hegemony is always tempered by the alliance with top management but, during such hegemonies, the rules of the owners are basically endorsed by top management. Schematically, two such hegemonies prevailed, at the beginning of the century and since the 1980s. They were separated by the *Keynesian compromise*, where finance was "repressed" to a certain extent and under certain forms, and top management, in its private and public components, "reunited" to some extent with the other fractions of management. Keynesianism limited the prerogatives of finance concerning what was called above the "macroeconomic" facet of capitalist ownership; it encouraged the sectional behavior of managers and established a rather broad compromise among wage-earners; it extended the field of activities freed from the rules of the maximizing of the profit rate (usually called "the market").[10]

Actually, the emergence and stabilization of neoliberalism would have been impossible without the convergence of top management and capitalist owners, a modification in the content of the compromise characteristic of the interface. The *right turn* of the 1980s, analyzed by Thomas Ferguson and Joel Rogers[11], and the consolidation of neoliberalism cannot be reduced to the rise to the fore of the reactionary forces originally backing Ronald Reagan. President Reagan simply adjusted his policies in line with other business groups, that Ferguson and Rogers label *Internationalists*, related to international finance "leading international financiers" and leaders of multinational corporations in general: "Its members were recognized industry leaders with the best and most sophisticated managements".

1.2.5 Historical tendencies and crises

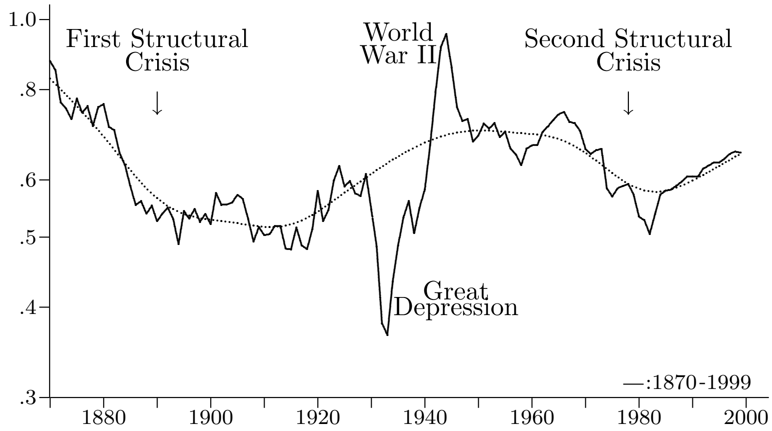
A central component of Marx's analysis in Volume III of *Capital* is the description of the patterns of evolution which we call *trajectories à la Marx*, as recalled in section 1.1, whose central feature is a declining profit rate. Such declines lead to structural crises. In our opinion, this framework of analysis is very relevant to the study of capitalism in the 20th century, with the proviso that structural crises failed to cause the collapse of

9. This is an "institutional" definition of *finance*. It can also be defined in the strict sense as a class. The notion of *finance capital*, meaning a tight and hierarchical relationship between industrial capital and banking capital, is usually attributed to Rudolf Hilferding (*Finance Capital: A study of the Latest Phase of Capitalist Development, op. cit.* note 4). American sociologists attempted to identify among capitalists (shareholders and members of boards of directors), in the postwar US society, a specific subset of *financial capitalists*, whose ownership and power span financial and nonfinancial corporations (M. Soref, M. Zeitlin, "Finance Capital and the Internal Structure of the Capitalist Class in the United States", *in* M. Mizruchi, M. Schwartz (eds.), *Intercorporate Relations. The Structural Analysis of Business*, Cambridge: Cambridge University Press, 1987, p. 56-84).

10. In some countries large segments of the productive system were placed under the control of state officials.

11. T. Ferguson, J. Rogers, *Right Turn. The Democrats and the Decline of American Politics*, New York: Hill and Wang (1986). The extracts below are from p. 47.

Figure 1 Secular trends of capital productivity (dollars of product per dollar of fixed capital): US (private economy)



The doted line represents the trend characteristic of the average technology, abstracting from the effects of the business cycle. The fluctuations around this trend mirror the movements of the average level of activity. Note the fall into the Great Depression, and the levels reached during World War II.

capitalism, but instead stimulated its transformation, introducing possible upswings in the profit rate.[12]

As shown in figure 1, the succession of various phases in the US since the Civil War is particularly evident in the profile of the *productivity of capital*. A first phase of decline is apparent in the late 19th century leading to the structural crisis of the 1890s; a gradual recovery is observed, evident from the 1920s; the Great Depression apparently interrupted this movement as a result of the sharp and lasting contraction of the activity, but actually accelerated the elimination of the fractions of the productive system lagging behind; a second period *à la Marx* is observed during the second half of the 1960s, 1970s, and early 1980s; the trough was attained during the great recession of 1982; a new trend upward is finally in phase.

These movements are related to the transformations of relations of production described earlier. We interpret the upswing in the first half of the century as an effect of the *managerial revolution*, which resulted in an increased efficiency in the use of capital (in all components of the activity: within the workshop with Taylorism and the assembly line, but also in commercial activities, inventory and liquidity management). In our opinion, a new revolution in management is presently underway, whose effects become apparent since the mid-1980s. The "marginal efficiency" of managerial innovation was probably declining, because of its costs. The new revolution can be described as a revolution within management itself. Information technology is the technology of management, which allowed

12. This is a second illustration of the combination of *fundamentalism* (in the reference to the tendency for the profit rate to fall) and *revisionism* (in the identification of phases of restoration). We share this view with Ernest Mandel (*Long waves of capitalist development. The Marxist interpretation*, Cambridge: Cambridge University Press and Éditions de la Maison des Sciences de l'Homme (1980)).

for its gradual efficiency and diminishing costs, but it is also clear that other organizational components are at issue. More and more sophisticated management must avoid any bureaucratic bias.

1.2.6 Imperialism and US hegemony

In our opinion, *imperialism* has been, to various degrees and under various forms, a permanent feature of capitalism. A chronology of its successive stages should be established. Since the 1960s and 1970s, and the dissolution of the colonial empires, it survives in the collective domination of the major capitalist countries. Among these countries, one is dominant: the United States. The notion of *US hegemony*, as we use it, refers to this configuration: the imperial collective domination of the major capitalist countries of the center over the periphery under US leadership.

1.2.7 Periodizing capitalism in the 20th century

A basic problem in the periodization of capitalism is the existence of various competing mechanisms.[13] The transformations of relations of production (with its multiple elements), class patterns, power configurations, technical trend and crises, as well as stages of imperialism, all are potential competing criteria.

These alternative criteria are linked in many respects, but they also possess a significant degree of autonomy concerning both the mechanisms involved and the timing. For example, the transformations of macro policies and the Keynesian compromise, following the Great Depression and World War II, occurred during a period of continuing favorable trends of technology and distribution (section 1.2.5); the depression was an expression of the rapidity of technical change, but it also resulted from the slow adjustment of macro policies and institutions. The various criteria delineate specific periods, and their combination easily degenerate into the multiplication of sub-periods. Structural crises and wars are convenient benchmarks.

1.3 Neoliberalism and the new capitalism

How can neoliberalism be interpreted in the context of capitalist transformation?

Before entering into a more technical analysis as in the second part of this study, the following general comments can be made concerning the nature and content of neoliberalism[14]:

1. Concerning the relations of production, neoliberalism cannot be analyzed as a movement away from the overall process of socialization and the delegation of management to salaried personnel. It actually accelerated this transformation in some of its components, and blocked some of its directions of evolution. What is at issue is only the modification of earlier trends:

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13. The paper excludes phenomena which are often used as benchmarks in the periodization of capitalism, such as the transformations of *competition*, notably the notions of competitive and monopoly capitalism. This choice is deliberate since we question the relevance of this distinction. The transformations of competition can be considered, in combination with other phenomena, as in Lenin's analysis of imperialism, or in isolation.

14. The notion of "liberalism" itself is already quite ambiguous, see, for example, the introduction to J. Weinstein, *The Corporate Ideal in the Liberal State, 1900-1918*, Boston: Beacon Press (1968).

- As during the first hegemony of finance in the early 20th century, neoliberalism strengthened the separation between ownership and management. It accelerated the development of large nonfinancial corporations managed by business staffs; salaried management grew within financial institutions (as in mutual and pension funds). The new pro-merger attitude of the government was helpful in this movement.
- At issue is the behaviorial biais of managers and public officials. This is what is at stake in the new pro-finance corporate governance, regulations, and policies: moving away from the increased managerial autonomy within corporations, and away from the Keynesian compromise and state. Neoliberalism meant the unambiguous reassertion of the maximization of the profit rate in its various aspects and extensions (section 1.2.1).

2. Neoliberalism cannot be defined by specific class patterns. This general observation must, however, be qualified in some respects. A singularly important point is that rentiers will not be euthanized (if such a process was underway). In addition, the reliance on extensive social inequality might prolong or extend the most extreme forms of exploitation concerning a fraction of productive workers, and simultaneously enlarge the personnel engaged in individual services. Neoliberalism reinforces the tendency of capitalism toward the preservation of the lower strata of salaried workers, rather than their transition into the upper fractions.

3. Unemployment will be used, as was traditional in capitalism, as a lever to control the labor cost and to discipline salaried workers. The stability of prices will ensure the preservation of the wealth of security holders. This characterizes neoliberalism as a form of "aggressive" capitalism.

4. The new more favorable patterns of technical change in the recent decades, if it is maintained, might open a new course for capitalism. These trends became apparent under neoliberalism but they are not intrinsically characteristic of it. They are, to a large extent, managerial achievements. Their sustainability is an issue. Neoliberal or not, the capitalism of the future is not immune from new trajectories *à la Marx* and the accompanying structural crises. This point is politically important because of the propaganda tending to classify all "favorable" aspects of contemporary capitalism within the same neoliberal category. (This stresses the importance of a careful approach to periodization.)

Two definitions of neoliberalism can be given:

1. In a narrow sense, the term *neoliberalism* can be used to designate a course of events, a set of policies in the broad sense of the term — that occurred during the 1980s and 1990s — with possible transitional features. It can be interpreted *as an attempt, in the 1980s, by a class of capitalist owners, to restore, in alliance with top management, its power and income after a setback of several decades*. Some of the features recalled above are analogous of 19th century capitalism, but it goes without saying that the notion of restoration does not imply that the new course of capitalism should be identical to any events experienced in the past.

2. In a broader sense, the term neoliberalism can be used to designate a new capitalism, with certain characteristics of sustainability: *the outcome of the restoration of the power and income of a class of capitalist owners in the context of advanced managerial capitalism*.

The difference between the two patterns — *real and utopian neoliberalism* — could be significant. It could even be so large that the term *neoliberalism* appears inappropriate to designate longer-term developments.

2 - Contradictions?

Do some of the traits of the last 20 years question the sustainability of the neoliberal course of capitalism? Can we detect internal contradictions? In this second part, we basically consider the US economy, which we compare with the average of three European countries (France, Germany, and the United Kingdom)[15], and France.[16] (Japan should obviously be considered in a more extensive study.)

Section 2.1 is devoted to the establishment of a new social compromise. Stability is discussed in section 2.2, accumulation and growth in section 2.3, and technical change in section 2.4.

2.1 Ruling and compromising

2.1.1 The wealth of the wealthiest

Rising inequality has often been described as a characteristic of neoliberalism. There is obviously an international component to this feature, and the gap between the most advanced countries and the poorer countries of the periphery is well known.[17] Even at the center of the capitalist world economy, the lower fractions of the population were injured by neoliberalism. Unemployment reached two-digit levels, briefly in the US after the change in monetary policy, and remained close to such levels in Europe for 15 years. Simultaneously, the wealthiest fraction significantly improved its income and wealth.

There is a specifical *financial* aspect to these flows of income and wealth toward the richest. It is clearly apparent in the large amounts of interest and dividends paid by non-financial enterprises, a fraction of households, and the state, to financial institutions and basically another fraction of households. The dramatic rise of the stock market since the mid-1980s added to this rising unequal distribution of wealth.[18] The astounding "compensation" of top managers has also often been emphasized.

This rise of the income and wealth of the wealthiest part of the population followed a period of actual setback and can, to some extent, be described as a recovery. During the first phase of the structural crisis of the 1970s, low profits, distributions of dividends, and interest rates, combined with large inflation rates, had considerably deteriorated the income of the ruling classes. As shown in figure 2, the fraction of the total wealth in the US, held by the richest 1% among households, fluctuated between 30 and 35% during the first decades after World War II.[19] This percentage declined to 22% in 1976. Neoliberalism reversed this movement, and the same rate rose to 38% in 1998.

15. In 1995, the output of these three countries represented 70% of that of the US.
16. This analysis borrows from G. Duménil, D. Lévy, *Crise et sortie de crise, op. cit.* note 1 and "Costs and Benefits", *op. cit.* note 1.
17. PNUD, Programme des Nations Unies pour le Développement, *Rapport mondial sur le développement humain*, Bruxelles: De Boeck (1999).
18. In the measurement of financial income (interest and dividends received plus capital gains), it is important to correct for the impact of inflation.
19. E. Wolff, *Top Heavy*, New York: The New Press (1996), supplemented by more recent estimates.

Figure 2 Share of total wealth held by the top 1% of wealth holders (%): US, households

Wealth includes real estate (housing), securities and cash, and consumer durables.

These observations illustrate a few aspects of the notion of aggressive capitalism introduced earlier. Confronting the decline of their income and wealth, the ruling classes politically modified the course of capitalism. Since the mid-1980s, they were able to simultaneously impose a sharp control on the growth of wage costs and enlarge, to incredible extents, their "tapping" of profits. They restored dramatically their position, even *prior to* the apparition of the new upward trend of the profit rate.

One may question the sustainability of this course of evolution in the long run, given economic and political conditions:

1. The stagnation of wages (manifested in the increasing share of profits despite the slow growth of labor productivity) plays an important role in the recent recovery of the profit rate, and the growth of the costs of workers' benefits was gradually reduced (hence the costs of their financing). Two basic trade-offs are at issue, between: (1) wage costs and profits; and (2) these transfers favorable to finance and accumulation. Unless the present progress of technology is prolonged, creating durable conditions for a relaxation of these trade-offs, it will become more and more difficult to repress labor.

2. The struggle of wage-earners for better working conditions and living standards suffered the double blow of: (1) its defeat during the structural crisis and the assertion of neoliberalism, and (2) the collapse of any alternative to capitalism in "socialist" countries (a long history of gradual disillusionment) and the failure of all social-democrat or Keynesian reformist ways out. The negative discouraging consequences of these setbacks will not last for ever.

In order to preserve their privileges, the ruling classes have two options, either the establishment of a new social compromise of their own (to align larger segments of the population with the prosperity of the weathiest) or a shift toward a more and more authoritarian regime.[20]

20. Immanuel Wallerstein sees in the growing demand for democratization one of the contradic-

2.1.2 "All capitalists"

Neoliberalism broke the earlier "wage-earner" solidarity and the compromise with (repressed) finance, characteristic of Keynesian years. The leading social role in this power configuration was played by managerial personnel (managers, engineers, professionals...), both within private corporations and the administration. The arrangement impacted wage-earners in general (*via* the commitment to full-employment, larger access to education, and the welfare state in general). In spite of the financial repression, the relationship with finance was also one of compromise. The primary limitation to the earlier preeminence of finance concerned the control of credit mechanisms, by regulations and the new targets of monetary policy (section 1.2.2), while the other facets of financial activity (the allocation of capital) were less affected (despite the limitations placed on horizontal mergers, other than diversification mergers, the restrictions to the financial activity of commercial banks, and the international mobility of capital). This raises the issue of what new compromise can be substituted for that prevailing during the Keynesian years.

It is easy to understand that its relationship with management is crucial to the neoliberal program of restoration of the power and income of capitalist owners within advanced managerial capitalism. A key element is *top management*, beginning with what we call the *interface* between ownership and management. As already mentioned, the reliance on top management has been a prominent feature of neoliberalism from its inception, and it was lavishly associated with the new flow of income toward finance. This feature is so congenial to neoliberalism that it is hardly possible to refer to a social compromise. Such a "compromise" would, in any event, belong to the first category (section 1.2.4): the cooperation among the various fractions of the ruling classes.

The establishment of a broader compromise, including the middle classes, is crucial to the survival of neoliberalism. The slogan is "All capitalists". Its main practical components are: (1) the actual distribution of shares to wage-earners, as a supplement to their compensation; (2) stock options; and (3) pension funds. The effectiveness of these devices is increased by stimulative tax incentives. Institutions such as pension and mutual funds, which have grown before neoliberalism, reached unprecedented levels, and they will remain a central element in the neoliberal edifice, associating the upper half of households to the fate of capital. In the establishment of this compromise, the dramatic rise of the stock market since the mid-1980s acted like a bonanza. Middle classes, holding some financial assets, actually shared the view that the most lax capitalist rules increase their living standards, and that class frontiers can be gradually superseded. This favorable period is over.

2.2 (De)Stabilizing the economy

The purpose of this section is to discuss the (in)stability of capitalism dominated by neoliberalism. Is neoliberalism a system specifically prone to monetary and financial crises? Does such a propensity question its survival? In this discussion, we will distinguish between domestic and international issues.

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tions (in addition to the exhaustion of the reserves in cheap labor and ecological resources), which will provoke the final outbreak of capitalism, presently on the verge of entering its last Kondratieff (I. Wallerstein, "Globalization or the Age of Transition? A Long-Term View of the Trajectory of the World-System", *International Sociology*, XV (2000), p. 250-268).

2.2.1 Domestic issues: Financial crisis and macro stability

The rise of neoliberalism created a significant financial crisis during the 1980s in the US. It is not the purpose of the present study to recount the development and various phases of this crisis.[21] The amplitude of the event is illustrated in figure 3, which displays the number of banks and savings associations which have failed or were rescued. The figure speaks for itself. The crisis resulted from the sharp rise of real interest rates in the early 1980s, deregulation, and defaults. The feedback effect on American banks of the crisis of the debt of the so-called *Less Developed Countries* was considerable. Note that, to different degrees, most other advanced capitalist countries were affected. This financial crisis was the expression of the deepening of the structural crisis and the implementation of neoliberalism, and can be interpreted as a transitional phenomena. A primary lesson is that, beyond the early reluctance of the Reagan administration claiming that the "market" would take care of the situation, the US government and monetary policy did much to impede the spread to the real economy of the problems of the financial system.

This sharp perturbation of the working of financial institutions at the center must be contrasted with the relative stability of the macroeconomy (a rather stable growth) from the mid-1980s onward. Figure 4 depicts the yearly growth rate of output for each quarter since 1975 in the US. One can recognize in this figure the negative growth rates of output in the recessions of 1980 and 1982, and the peak in 1983, which coincided with the emergence of neoliberalism. But growth was exceptionally stable during the rest of the period, with the exception of the 1993 recession. Thus, beyond the initial period of dramatic perturbation (the transition years), neoliberalism can claim a contribution concerning the stability of the macroeconomy. Despite the present decline, this is an object of pride in the US.[22]

The analysis of these developments refers to basic macroeconomic mechanisms. The crucial issue, in these respects, is one of stability (frame 1).

It is important to keep in mind that, despite the abandonment of some of the rules established after the Great Depression, the transformation of the institutional framework in the early 1980s *strengthened* the power of the central bank: As indicated in its name, there was two facets to the *Deregulation and monetary control act* of 1980. New prerogatives were given to the central bank, which were required by the exercise of a strong pressure on the economy, targeted at the elimination of inflation. The commitment to intervention under more dramatic circumstances remains also strong (as shown by the reactions to the banking and savings and loans associations crises in the 1980s). *Concerning macro policy, neoliberalism did not destroy but reinforced the institutions of Keynesianism, only the targets were changed: price stability rather than full employment.*[23]

Overall, the comparison between the two hegemonies of finance is telling. There is a continuity concerning the targets: (1) the stability and survival of monetary and financial institutions, and (2) the stability of the general level of prices. The major difference is that finance, during the second (neoliberal) hegemony, inherited and effectively used the tools of Keynesian macro policy.

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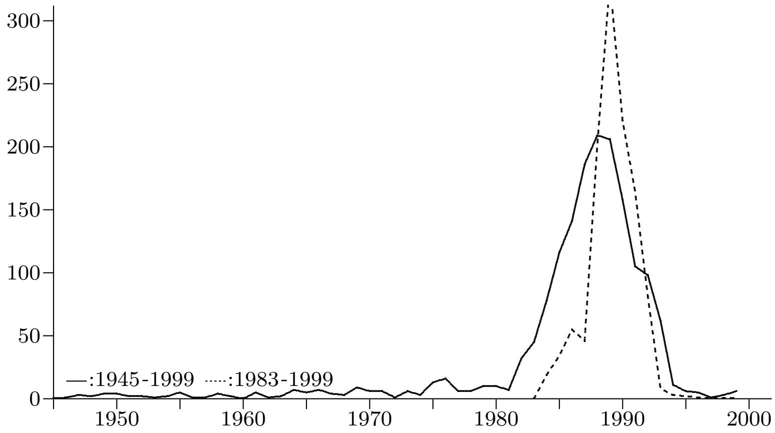
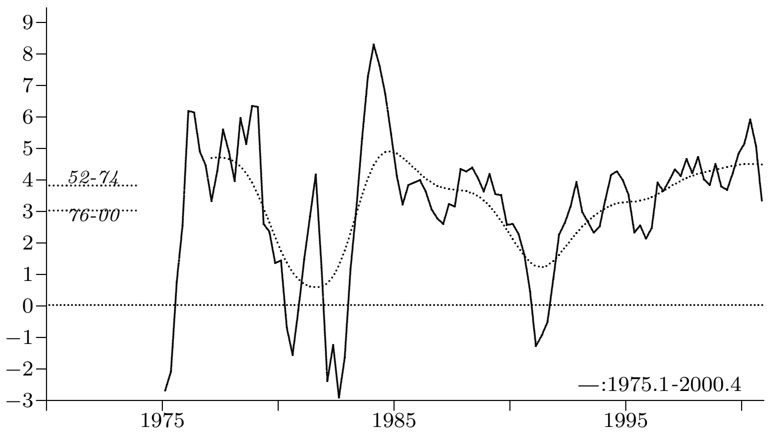
21. FDIC, *History of the Eighties. Lessons for the Future*, Washington: Federal Deposit Insurance Corporation (1997).
22. We abstract from the slowdown of the US economy which began in 2000 (figure 4). Independently of other more dramatic developments (always possible in the present context of threatening financial instability and which would affect the world economy), the US could enter a new recession (while Europe has not to date).
23. The balance of external accounts is a target to be taken into account in Europe, but not in the US (section 2.3.2).

Figure 3 FDIC-insured commercial and savings banks (——) and savings and loans associations (-----) that were closed or received FDIC assistance: US



FDIC: Federal Deposit Insurance Corporation

Figure 4 Yearly growth rate of output for each quarter (%): US



The variable depicted is the growth rate of each quarter in comparison to the same quarter one year earlier. The doted line is a trend line abstracting from shorter-term fluctuations. The short horizontal segments describe the average growth rates for the two periods 1952-1974 and 1976-2000.

1 - Business-cycle fluctuations
Monetary and financial (in)stability

Under "ordinary" conditions, *i.e.*, in the absence of exceptional shocks and destabilizing of the monetary and financial institutions, demand levels, in contemporary capitalism, are controled along the phases of the business cycle, by monetary policy (in particular, in the US, by mortgage credit for housing purchases). *(a)*The stability of the general level of activity shows that these mechanisms are still very powerful, perhaps more efficient than ever. There is little inflation and capacity utilization rates are, in the average, "normal" (*i.e.*, fluctuating around a figure slightly above 80%). One may say, more technically, that *local stability* is generally ensured.
These "ordinary" conditions are not always present. A sudden and large shock, such as a collapse of the stock market and the accumulation of defaults on bad debts, could *destabilize* the economy, impacting the demand behavior of households, and the supply and demand behavior of firms. A recession may follow, destabilizing demand and output levels. As was the case in the US during the 1930s and the early 1980s (during the monetary and financial crisis), and is presently the case in Japan, such shocks affect the functioning of the banking system, a key driver belt in the mechanics of monetary policy. This may render monetary policy inefficient for some time and be manifested in sharp fluctuations upward and downward, or a collapse of the activity. In this latter case, a public deficit (borrowings by the government, one channel in the issuance of money) is required, though not necessarily sufficient.

(a) A theoretical exposition and modeling can be found in the third part of G. Duménil, D. Lévy, *La dynamique du capital, op. cit.* note 5.

2.2.2 International issues: Instability and the US hegemony

The most dramatic crises of neoliberalism were the international monetary and financial crises of the 1980s and 1990s, beginning respectively with the debt crisis of *Less Developed Countries* in 1982, then the crisis of the Mexican economy in 1994, those of South-East Asia in 1997, South America and Russia in 1998, and most recently Turkey. Independent of the rise of real interest rates, the central *financial and monetary* factors of the crises of the 1990s were: (1) the international mobility of capital gradually established as a prominent component of the new neoliberal order, and (2) flexible exchange rates and the strange combination of flexibility and rigidity (the pegging of some currencies to the dollar) prevailing on international currency markets.

The international institutions of Keynesianism, the IMF and the World Bank, also survived the transition to neoliberalism, but, like the central banks of capitalist countries, the targets of their activity were redirected. They became the agents of the diffusion of the neoliberal order throughout the planet, with the additional concern that regional perturbations should not jeopardize stability at the center.

Already, the Bretton Woods agreements had failed to implement a genuine international bank, with its own, independent, currency. A specific position had been given in the final agreement to currencies potentially "as good as gold", *i.e.*, the dollar. When the dominance of the US was undermined for the first time at the end of the 1960s, the rules established at Bretton Woods began to unravel. The so-called "crisis of the dollar" did not undo the dollar's preeminence.[24] Quite the contrary, this hegemony was maintained in a new institutional context, that of flexible exchange rates and gradually freed flows of

24. L. Panitch, "The New Imperial State", *New Left Review*, 2 (2000), p. 5-20.

capital. (The most conspicuous, almost caricatural form, of US hegemony is the gradual dollarisation of the world economy.)

In spite of this similarity, the situation is, in important respects, different from that prevailing domestically within the major capitalist countries, in particular in the US. Contrary to what occurred domestically, no strong framework in charge of maintaining the international monetary and financial stability of the world economy has emerged. Independent of the class content of its targets, and this situation poses an important threat to international stability. This is a major contradiction within neoliberalism, linked to the transition away from many of the components of the Bretton Woods agreements (periodically adjustable rates of exchange, limitations to the mobility of capital during periods of crisis...). Its most threatening aspect is the inability to impose a regulatory framework restraining the mobility of capital whenever and wherever necessary, and, more generally, to regulate international financial and monetary institutions and mechanisms.

A prominent explanation of this failure to promote an independent set of international institutions was the action from the US to preserve its hegemony. There is a strong similarity between: (1) the resistance of private finance in the early 20th century to the emergence of adequate macro stabilizing mechanisms, and (2) the resistance of the US, after World War II, to the establishment of such an international framework, and the transformation of monetary and financial institutions in the wake of the crisis the dollar. This reaction to the crisis of the dollar occurred a few years prior to the 1979 coup, but can also be interpreted as a first stage in the transition toward neoliberalism.

2.3 Accumulating capital

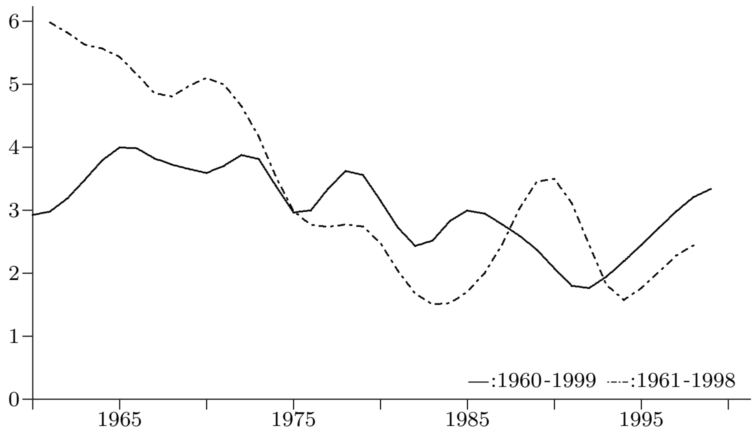
2.3.1 Slow accumulation

The accumulation of capital within neoliberalism is slow, and the transfer of income to finance is threatened by this sluggishness. This is the conclusion which follows from a quantitative analysis of growth within major capitalist countries. The question of the compatibility of rapid accumulation and the large transfers of income toward financial institutions and rich households is, therefore, on the table. Note that the contrary view is presently dominant. The neoliberal refrain is based on the following line of argument: (1) the US is the leading neoliberal country; (2) its growth is rapid, faster than in other advanced capitalist countries; therefore (3) neoliberalism means investment (capital accumulation) and growth. In Europe, an additional proposition is: (4) Europe must emulate the US.

Basic observations contradict this faith. Figure 5 displays the rate of accumulation in the US and the average of three European countries, since the 1960s. The two curves show a declining trend, and the distinct pattern of evolution in Europe and in the US, in particular since the mid-1980s. Despite the fluctuation upward in the 1990s in the US, there is no neoliberal miracle guiding accumulation. The rate of accumulation moves cyclically: Most likely, the last points in the series for the US will appear as a peak, and it is not yet possible to detect the trend upward which should follow from the rise of the profit rate. Figure 6 displays the rate of net investment in the US. It shows that investment only recovered its pre-neoliberal levels.[25]

25. Because of the shortening of the service life of fixed capital, it is necessary to consider the rate of *net* investment, and not of *gross* investment as is often done.

Figure 5 Rate of accumulation (%): France, Germany, and United Kingdom (-·-·-), and US (——)



The unit of analysis is the total private economy. The accumulation rate is the growth rate of the fixed capital stock, net of depreciation. The series has been slightly smoothened to abstract from short-term fluctuations.

Figure 6 Rates of net savings (——) and net investment (-----) (%): US

Investment is that of enterprises. In this context, *net* means after subtracting the depreciation of fixed capital. Savings are the difference between the total net product and all purchases of goods and services (including the purchase of residential capital by households) other than the investment by enterprises. (Capital gains are not counted as a component of income.)

It is a common feature of neoliberalism, in the US and Europe, that very large fractions of profits are paid in interest and dividends. Consequently, despite the restoration of the profit rate since the mid-1980s, the rate of retained profits (after all payments, including interest and dividends) remains low as well as the accumulation rate which is tightly linked to this rate of retained profits. This is illustrated in figure 7, on the example of France. One can note: (1) the strong recovery of the profit rate prior to the payment of interest and dividends, significantly above its levels of the early 1970s; (2) the rising transfer of profits to finance, with the effect that the rate of retained profits remains below its levels of the 1970s; (3) the tight correlation between the rate of retained profits and the rate of accumulation.[26] This is a central feature of neoliberalism, that the investment of nonfinancial corporations is self-financed. It has been the case since World War II, in the US, and continues to be so. The large reliance on borrowings disappeared in France with neoliberalism. Whatever the complexity of the actual channels, things unfold within neoliberalism as if the profits pumped out of the productive sector of the economy did not return to it. This is a central contradiction of actual neoliberalism: its inability to promote strong accumulation. This does not deny, however, the role of finance in the allocation of capital among various activities (its propensity to finance promising innovations, possibly beyond what would be appropriate).

This feature of neoliberalism is puzzling. It is certainly possible to imagine a configuration of capitalism in which large flows of profits are transferred to capitalist owners, *via* the payment of interest and dividends, and then returned to the nonfinancial sector as new loans and newly issued shares. This has not been the case to date. It is rather intuitive that large real interest rates discourage borrowing[27], but these trends suggest, more surprisingly, that the *maximizing of the market price of corporations* was more important, at least more successful, in the relationship between the productive sector and the stock market than the reliance on the financial market to finance accumulation. (The repurchase of their own shares by corporations is synonymous with negative accumulation.) No other feature of neoliberalism illustrates so clearly the ruling classes as parasitic, and the capability of neoliberalism to adapt to the requirements of accumulation will be crucial in the long run.[28] (Of course, sluggish growth rates will diminish potential tensions on the labor market.)

2.3.2 Advanced capitalist countries: Growth under US hegemony

A basic flaw in the neoliberal creed (section 2.3.1) is the second proposition in the chain: the reliance on the growth differential of the US in comparison with Europe and Japan. This leap of faith overlooks the consequences of US hegemony, in particular the preeminence of the dollar, its so-called *seignorage*.[29]

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26. The small gap during the 1990s reflects the desperate attempt by firms to get out of debt, manifested in rates of self-financing larger than 100%.
27. Net borrowing in the US...
28. It is important to keep in mind that the financing of future retirement plans depends on growth (and technical progress), not on its institutional form, redistribution among wage earners or pension funds. Pension funds could only contribute to the solution of this problem, if they contributed to larger savings and growth rates, which is not presently the case! What is at stake in the alternative between redistribution and funds is a more or less egalitarian framework.
29. P. Gowan, *The Global Gamble. Washington's Faustian Bid for World Dominance*, London: Verso (1999). We will abstract in this section from other aspects of the dominance of the US, such as its position in trade or financial international agreements, political pressure or military intervention.

Figure 7 Rate of profit before the payment of interest and dividends (-----), rate of retained profits (after these payments) (——), and accumulation rate (– –) (%): France, nonfinancial corporations

The *accumulation rate* is the growth rate of the stock of fixed capital, net of depreciation. Profits, in both definitions of the profit rates, are divided by net worth. This figure uses a logarithmic scale on the vertical axis, and the distance between the curves are, thus, proportional to the ratios among the various rates. The burden of interest and dividends payments is measured by the distance between the two series (-----) and (——).

As is well known, US accumulation was not financed, since the beginning of the 1980s, by domestic savings but foreign savings. As shown in figure 6, the rate of savings of all agents in the US dropped suddenly in those years to about zero, exactly at the inception of neoliberalism. No other country could have afforded the external deficits (and the corresponding imports of capital) resulting from the gap between investment and savings.[30]

It is difficult to balance US domestic issues and international determinants in the explanation of this unusual situation. In the average, profit rates do not appear larger in the US than in Europe[31], and it is not clear that foreign capital was attracted by larger profitability levels in the US. Capital flows to the US seem to be more a consequence of domestic policy, in the absence of external constraint, given the attraction of the privileges attached to hegemony.

One specific domestic feature of the US economy is that credits to households continued to rise throughout the 1990s.[32] This is certainly a crucial factor in the explanation of the very large spending (consumption plus purchases of residential capital by households) levels in the US, and hence the very low levels of domestic savings. This is where the absence of external constraint and the reliance on external deficits is crucial.

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30. Obviously, the rate of exchange of the dollar is also at issue: With the exception of the sharp fluctuation upward in the early 1980s, the real exchange rate of the dollar remained comparatively low, in particular with respect to the yen, but this weakness did not offset the deficit of trade.
31. The labor cost remains higher in the US than in Europe, and available measures contradict the view that a technical gap could offset these differences.
32. The comparison with France shows the significant difference in the patterns of evolution. During the 1970s and the first half of the 1980s, the ratio of the total debt of households to their disponible income fluctuated in both countries between 60 and 70%. This rate of indebtedness grew in 1990, but while it declined during the following years in France, it went on rising in the US, reaching the unprecedented level of 95%.

Neoliberalism, when assessed from the viewpoint of major capitalist countries (without bringing the periphery into the picture), already appears to be a very hierarchical system. The lesson that the US, as the leading figure of neoliberalism, are allegedly giving to the major capitalist countries seems quite dependent from US hegemony. New balances of power, in particular in favor of Japan and, to a lesser extent, Europe, would fundamentally question the alleged virtues of neoliberalism concerning accumulation and growth. The US did not make the demonstration of the capability of neoliberalism to achieve growth, first, because accumulation is not strong (section 2.3.1) and, second, because much in the better achievements of the US can be imputed to their world hegemony rather than to their comparative advance along the neoliberal route.

2.3.3 Prosperity and the bubble

An important role is often conferred on the current stock market rise in the analysis of the growth of the economy, in particular in the US[33], and this relationship between demand and stock market craze could be used as an argument to question the capability of neoliberalism to maintain continuously growing levels of demand.[34] If this view were sound, this connection would, indeed, signals a significant contradiction in the functioning of capitalism under neoliberalism.

The parallel between the last two decades and the beginning of the 20th century, and the occurrence of the Great Depression, plays an important role in this allegation. The 1920s and the last 15 years have much in common: (1) new trends in technology and distribution; (2) audacious monetary and financial innovations; (3) a merger wave; and, probably not coincidentally, (4) a sharp rise in stock market indexes. Keynesian economists establish the connection between demand and stock indexes in relation to the depression, contending that a contraction of demand followed from Wall Street's collapse at the end of 1929.[35] This line of argument implies that the activity had been previously stimulated by the rise of the stock market (as a result of a *wealth effect*).[36] The same would be true of the recent prosperity in the US, at least during the 1990s.

A preliminary difficulty with this interpretation of contemporary spending levels in the US is that the speculation is common to most advanced capitalist countries, with the obvious exception of Japan, and was not stronger in the US than in Europe. For example, a bubble of exactly the same amplitude and timing existed in France, and demand was not stimulated to the same extent as in the US. But our disagreement is even more fundamental.

There is no questioning the fact that the rise of the value of the portfolio of shares held by a fraction of households impacts on their spending and borrowing behavior, but monetary policy is still powerful (section 2.2.1, frame 1) and can adjust the levels of demand beyond other determinants (*i.e.*, *ex post*). In the absence of the rise of the stock market, policy could have performed its tasks even more easily. The same will be true after the adjustment, provided that the monetary and financial framework is not unsettled.

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33. R.J. Gordon, Technology and Economic Performance in the American Economy, Working Paper, Conference of the *Centre Saint-Gobain pour la Recherche en Économie* (2000).
34. F. Chesnais, "La "nouvelle économie": Une conjoncture propre à la puissance hégémonique américaine", *in* Séminaire Marxiste, *Une nouvelle phase du capitalisme?*, Paris: Syllepse, 2001, p. 41-70.
35. In our opinion, this interpretation is dubious: (1) The stock market fell after industrial production; (2) The depression was pursued well after the restoration of the stock market.
36. In such models, the wealth of final consumers is a variable in their demand function, besides their income.

Much confusion is created by the present coexistence in the US of the bubble, the rise of credits to households, and external deficits. A quite unusual chain of events is at work: (1) loans stimulate the spending of households (consumption and purchase of housings)—possibly through the inducement of the rising stock market for a fraction of the population; (2) the supplement in total spendings (spending of households plus investment by firms) is purchased from outside without significant inflationary consequences on domestic prices; (3) the normal utilization of productive capacity, *via* the control of the stability of prices, is guaranteed with great care by monetary policy.

Overall, it appears that a speculative bubble is a predictable development in the context of a merger wave, recovery of the profitability in a segment of the economy, and deregulation of financial mechanisms. But we do not believe it is a necessary component of the formation of demand in general, and within neoliberalism in particular. A large crisis could follow from the bursting of the bubble if the necessary macro policies were not implemented—if the shock radically destabilized the banking system, or if the crisis reached cumulative international proportions—but such developments are distinct from the mechanisms which govern the formation of demand when the conditions for stability are ensured as was the case during the second half of the 1990s. The bubble is not a condition for the survival of neoliberalism. Quite the contrary, soft lending might be a condition for the continuation of the new course of capitalism. Without the bubble, neoliberalism would be neither more or less apt to accumulation and growth.

2.4 Improving technology

It becomes more and more likely that capitalism initiated, about 15 years ago, a period characterized by more favorable conditions of technical change (section 1.2.5). In Europe as in the US, the declining trend of the productivity of capital was not only interrupted but reversed in the mid-1980s (figure 1), and profit rates tend now to rise. The prevalence and prolongation of these trends is crucial to neoliberalism and the future of capitalism in general. A gradually more efficient technology is a necessary condition for steady and lasting growth, its international diffusion (obviously with the limitations inherent to capitalism), and the implementation of a new social compromise. The question must, therefore, be posed of a possible link between neoliberalism and the features of technical change[37]?

We believe that a deep-seated transformation of management is presently underway, as in the early 20th century, in a different context though also in the wake of a structural crisis (section 1.2.5). The similarity between these two episodes is large. The managerial revolution of the early 20th century was tightly linked to the merger wage (the corporate revolution) of the turn of the century; both finance and management were involved (in the context of the separation between ownership and management). The same is true concerning the transformations of the last decades. Obviously, the new technologies benefited from earlier R&D, and appear basically as a managerial achievement, the work of engineers and specialists. The previous merger wave, the *conglomerate* wave, had managerial features, related to prevailing antitrust legislation, but finance changed the rules under neoliberalism, and a pro-merger attitude was adopted.[38] Finance allowed for the restructuring of

37. At issue here is the degree of autonomy of the various levels of anlysis: relations of production, tendencies and crises, and power configurations.

38. G. Duménil, M. Glick, D. Lévy, "The History of Competition Policy as Economic History", *The Antitrust Bulletin*, XLII (1997), p. 373-416. The basic characteristic of conglomerates was *diversification*, as the law limited mergers of firms engaged in a same activity.

the economy, modifying the juridical framework and its application, and provided the necessary coordination and funding; it imposed stricter profitability criteria. As is typical in capitalism, the task was undertaken under the pressure of a profitability crisis, *i.e.*, *ex post*, with high costs for large segments of the population, but finance can claim a contribution.

That finance played a role in the restructuring of the economy during the crisis of the 1970s and 1980s, does not imply that it possesses the ability to prolong these trends. Their continuation is crucial to the future of neoliberalism and capitalism in general. We have no pronosis in this respect. The patterns of events characteristic of the 20th suggests, however, the two following statements: (1) Specific risks are attached to rapid technical change, as shown by the Great Depression; (2) The benefits of a technical and organizational revolution may be several decades long.

3 - Beyond neoliberalism?

This last part uses the basic distinctions introduced in this study — between the transformation of relations of production, tendencies and crises, and power configurations — to discuss the future of neoliberalism. Section 3.1 is devoted to the role of tendencies and crises in a possible transition. Section 3.2 questions the capability of basic capitalist relations of production, in their contemporary neoliberal configuration, to handle the tasks of the future. Last, section 3.3 contrasts various forms of preservation of neoliberalism to potential post-neoliberal patterns.

3.1 Tendencies and crises

A common feature of all significant changes in the period covered in this paper is their relation to crises. This basic function of "violence" remains a core feature of capitalism.

A first, very dramatic, development, which might contradict the neoliberal dream, would be that *history repeats itself*. This first transition scenario is that of large *instability*. The favorable course of technical change, opening a new phase of capitalism and financial hegemony as in the beginning of the 20th century, is suddenly and provisionally interrupted by a major depression, like in the 1930s. The Great Depression was the *crisis of the recovery from the structural crisis of the late 19th century under financial hegemony*, with a significant monetary and financial component. The entire sequence of events is reproduced: (1) structural crisis (that of the 1970s); (2) new favorable trends (presently underway), new hegemony of finance (as is also the case); (3) a major crisis (recurrently announced); (4) a second financial repression and a new social compromise.

If the path of technical change is less rapid, or if the favorable trends observed during the last 15 years come to an end or are reversed, difficulties will be felt *via* significant crises. They will be strengthened by social tensions (caused, for example, by stagnating wages or the difficulty to finance retirement plans) and international confrontations (imposing new monetary and financial rules). Instead of maintening its prerogatives, finance will have to gradually back up. The transfer of profits in its favor will be limited and new regulations imposed. Neoliberalism is confronted with this scenario in a kind of medium run. A spectacular development would be the possible occurrence of a new structural crisis (such as that of the 1890s and 1970s). History would also repeat itself and a new power configuration be imposed in the wake of such a crisis (as was the case at the transition between the 1970s and 1980s), but the new element is that finance would be in command, and repressed.

3.2 Relations of production

At an even more profound level of analysis, the crucial issue is one of relations of production. The history of capitalism reveals their gradual transformation in the direction of an increased socialization: (1) the growing size and a larger interdependency of individual units of production, the central coordination of macro policies and definition of regulatory frameworks, the concentration of ownership and allocation of capital, the social control of education, research, etc.; (2) the delegation of the functions implied by the accomplishment of these tasks to specialists within nonfinancial corporations and financial institutions. Neoliberalism was possible, because it did not interrupt these evolutions but strengthened them. In all instances, the issue was the definition of *targets*: managing *firms* and the *macroeconomy* in the interest of the owners, with much contempt concerning the costs for other classes or countries.

It is not clear that this ability will be preserved, and that neoliberalism can measure up to the task of furthering these achievements in all of their components. The question is, therefore, posed of a fundamental contradiction between these tasks, present and future, and the perpetuation of capitalism. This paper sets out an ensemble of significant limitations:

1. The current forms of capital ownership still guarantee a large initiative of finance, incompatible with the quest for monetary and financial stability: (1) They still allow the collective retreat of financial investors whenever potential losses are at issue (as manifested in international financial crises and collapses of the stock market), and macro policies are only efficient under "ordinary" conditions — monetary and financial perturbations question this capability; (2) The other facet of ownership, the allocation of capital among industries and firms, is still largely subject to the very volatile anticipations of major financial institutions, such as funds, unilaterally motivated by the interests of their customers, with again potential negative macro consequences.

2. Despite the involvement of finance in the definition of the new more favorable course of technical change in its first stages, neoliberalism has not resolved one of the major contradictions of capitalism: the capability to maintain a steady course of technical change. This would require new degrees in the socialization of R&D and the implementation of innovation, *i.e.*, a more profound transformation of relations of production, beyond the basic maximizing of the profit rate requirement as it can be pursued by individual firms or follow from collaborations.

3.3 Power configurations: Alternative issues

3.3.1 Neoliberalism: The end of history?

Some of the contours of the capitalist dream of the ruling classes in neoliberalism are easy to infer from the observation of the last two decades and the corresponding propaganda. Capitalism is the end of history. The owners of capital consolidate their position and income, and govern in tight connection with top management. A broader compromise is established with upper middle classes, which benefit from slowly rising purchasing power, health insurance, and pension funds; they share the benefits of a rising stock market (after a soft lending) and substantial interest rates. Accumulation rates are decent and crises limited in extension. This is made possible by the continuing favorable profile of technical change. The hierarchy of wage-earners remains strong, but the situation is under control. Thanks to the exports of capital toward peripherical countries, segments of the population of the periphery are gradually moving toward a status similar to that of the lower income brackets of the center; small elites collaborate with the ruling groups of the major capitalist countries. The US lead on the new route, followed by Europe and Japan, finally adjusted to the benefits of neoliberalism, and, at some distance, by the most cooperative among other countries.

A more conflictual course of events is more likely and probably identified by the shrewdest advocates of neoliberalism. Distributional tensions remain significant, and social conflicts must be confronted. The rivalry among major capitalist countries and anti-imperialist struggles from the periphery remain significant. Stability is basically ensured, but at the cost of recurrent crises. Capitalism must transform itself, but the fundamental features of the power configuration are preserved. The problem is to lead the international race and ensure the continuing preeminence of the ruling classes.

3.3.2 Beyond neoliberalism: The pursuit of history?

An alternative outcome is that the neoliberal power configuration is unsettled, following one of the alternative scenarios outlined earlier. Capitalism is not the end of history.

A logical consequence of our analysis is that a new compromise is passed between the leading managerial classes and the rest of wage-earners (at least some fractions of it). Depending on the forms and degrees of class struggle, the managerial and popular components of the new course of events is more or less accentuated: from a new Keynesianism to any more radical transformation. The economics of the compromise are largely determined by its politics.

Independently of its precise social content, the following can be said of the tasks that the new compromise will have to carry out. The first historical setback of finance introduced the socialization of the *control of the macroeconomy*, in the broad sense of the term (stabilizing business fluctuations and ensuring the stability of financial mechanisms and institutions). Redirecting these tools toward new (to some extent "earlier") targets will not be the most difficult task to achieve. On the agenda for post-neoliberalism are new degrees of socialization of more efficient channels toward technical progress and accumulation. Possible directions had been suggested during the decades of the Keynesian compromise, but none of these had been performed successfully, neither the preservation of the favorable path of technical change, nor strong accumulation — hence inflation, hence unemployment. The structural crisis of the 1970s — the expression of this failure — paved the way for the come back of capitalist owners.