

THE NATURE AND CONTRADICTIONS OF NEOLIBERALISM

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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 in the economic performance of the major capitalist countries during the 1970s, and the failure of the initial set of policies which had been adopted in order to stem the deterioration. The slowdown in the growth of labour productivity, lower accumulation and growth rates, rising unemployment, inflation, and the increased macro-instability (booms and recessions) marked 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 tried again at first, but accelerating inflation undermined them. At the same time, 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, that we denote as *the 1979 coup*. Rapidly, with the election of Margaret Thatcher in the United Kingdom and Ronald Reagan in the USA, the overall political import of the new course became clear: repression of workers' claims for better living standards and working conditions, an attack on the welfare state, acceptance of unemployment, deregulation (especially of 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 twenty years of neoliberalism, how should its performance be assessed? The costs of neoliberalism in terms of unemployment were huge. Initially, it

prolonged the effects of the structural crisis. In the USA the unemployment rate peaked in the mid-1980s; in Europe an even more lasting wave of unemployment developed. The Third World was devastated by the debt crisis; monetary and financial institutions were shaken even in the USA; large monetary and financial crises signalled a new financial instability in the world economy. Speculation grew in the stock markets of large capitalist countries, adding to the threat of financial collapse. But today, inflation is down. The unemployment rate declined gradually in the USA, until it returned to the levels of the 1960s, and over the last few years a similar decrease has been under way in Europe. Despite the threat of recession, by the turn of the century growth was an object of pride in the USA and the envy of other countries. The speculative bubble was shrinking and the threat of a major collapse had so far not materialized.

In the overall assessment of neoliberalism, much complexity is created by the differences between the performance of various countries — notably the USA, Europe, Japan, and the periphery. Why was unemployment more severe in Europe than in the USA? In the growth of the US economy during the second half of the 1990s, what is most significant: the virtues of neoliberalism, or US hegemony? Or to frame the question differently: can the ‘performance’ of the USA be generalized to a broader set of countries?

This essay concerns neoliberalism, neoliberalism under US hegemony: its place in the history of capitalism, the social significance of the new rules that it imposes, its social costs and associated risks, its *future*. We have 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* that cast doubt on 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 labour movement, or a new era? 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 definitions of capitalism, of Keynesianism and of neoliberalism are all at stake in this discussion.

This essay should, then, be understood as a contribution to a broad, very ambitious, debate. It addresses two types of issues. The 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 trends in 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 controls on finance: a new discipline imposed on all other classes (on managerial and clerical personnel as well as productive workers), and an attempt, or set of attempts, to implement a new social compromise.

The second section discusses various fields in which the long-run sustainability of the neoliberal order may be questioned, depending on neoliberalism's ability to: (1) establish a new social compromise in an environment of rising inequality (associating broader social strata to the growing prosperity of the few, really or fictitiously); (2) ensure the stability of the economy (avoiding various forms of crisis: recession, and monetary and financial crises); (3) ensure significant accumulation and growth. In the last of these is implied the ability 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 ploughed back into non-financial corporations; to spread the benefits of the new social order outside of the USA, at least minimally (to prove that these benefits are not exclusively the result of the USA's global hegemony); and to maintain a steady growth rate (beyond the gradual deflation or bursting of the 1990s financial bubble). The long-run sustainability of the neoliberal order also depends (4) on prolonging the more favourable trends of technical change that have been apparent since the mid-1980s.

A concluding section briefly outlines the possible future of neoliberalism: the more or less likely forms of its perpetuation and possible alternatives — conditions which might lead to its gradual or sudden disappearance; and the compatibility of neoliberalism with the continuing transformation of the relations of production.

Despite its broad perspective, the paper should not be understood as a *thorough* critique of capitalism. Its scope is still limited. We do not relate the pursuit of growth and technical change to the preservation of the planet, or rule by the owners of capital 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.

I A HISTORICAL PERSPECTIVE²

1.1 *A Marxist framework of analysis*

At the centre of Marx's and Engels' interpretation of history in the *Communist Manifesto* are the fundamental dialectics of productive forces and relations of production. Relations of production may stimulate or inhibit the development of the productive forces, and the development of the productive forces creates the conditions for the transformation of the relations of production. This framework is applied twice: first to the transition between feudalism and capitalism, and then to the development of capitalism itself (heralding the transition to socialism).

Each configuration of relations of production corresponds to a specific class pattern. This is obviously true in the comparison between feudalism and capitalism, but also holds during 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*. There, Marx distinguishes between *landowners*, *the aristocracy of finance*, and *large industrialists*. Together, they govern under various *regimes*, which 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 openly express 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 of the always gradual character of the transitions between various modes of production (such as between feudalism and capitalism), the ruling classes of successive modes of production may coexist (as they did under the Old Regime). In such configurations, the nature of the various groups is always 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 the 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 under capitalism technical and distributional changes 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 labour productivity, the real wage, the capital-labour ratio (various *compositions of capital*), and the decline of the profit rate. These tendencies express the difficulty of sustaining the growth of labour productivity without resorting to increased amounts of capital investment (what we call the *difficulty of innovation*). The decline of the profit rate creates the conditions for large crises: recessions, unemployment, speculation, etc.³

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

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 labour power, and (2) the right and the ability to manage them. This fundamental relationship was profoundly altered at the end of the nineteenth 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.

These transformations of capitalist ownership reached new heights in the USA in the wake of the structural crisis of the 1890s. The crisis followed a period of decline in the profit rate. It degenerated into a crisis of competition, with enterprises attempting to stem the collapse of their profit rate by various forms of horizontal alliances. This was the period of cartels and trusts. Antitrust legislation forbade any form of agreement in which firms were preserved as independent entities sharing, for example, markets or profits. Simultaneously, company law was enacted allowing mergers and the formation of holding companies. A huge merger wave followed at the turn of the century, known in the USA as the *corporate revolution*.

Within corporations, management was delegated to large pyramidal structures of managerial and clerical personnel. They undertook what Marx used to call the *functions of the functioning capitalist* — i.e., in contemporary terminology, *management* in a rather broad sense of the term (actually, all unproductive labour). These functions are those required in order to maximize the profit rate. This second transformation is known as the *managerial revolution*.

Large corporations were formed under the control of finance, whose modern configuration — consisting of financial institutions tightly linked to non-financial 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, and beyond the mere financing of transactions, the amount of money increased tremendously, especially in bank accounts.⁵ Although the term is not used, one could call this a *financial revolution*.

This new configuration of twentieth century capitalism represented a considerable transformation of capitalist relations of production, a new aspect of what Marx had called the *socialization* of production (in contrast to production relations adequately embodied in individuals, such as the individual owner-manager). This social trait of capitalism was constantly reinforced during the twentieth century. Under neoliberalism it reached new heights with the development of huge financial institutions, such as mutual and pensions funds, and the transfer of still more 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 labour power, and the macro-economy*

In addition to ownership (in the juridical sense of the term) and management, there are also ‘macro-economic’ 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 may require savings from profits, but capital can also be ‘created’ by the banking system, *via* credit mechanisms and the issue 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 may 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 by the possible destabilization of financial institutions. (2) In

controlling the valorization process of capital (a component of management), the purchase of labour power is of particular importance. As analyzed by Marx, the *periodic replenishment of the reserve army of labour* plays a central role in the determination of the cost of labour, and hence of profits, periodically imposing strong pressures on wages, pressures which tend to compensate for the rise of wages during periods of overheating (*overaccumulation*).

Capitalism gradually developed centralized institutions and mechanisms charged with the control of the macro-economy, with major consequences for the issuing of money, the level of activity, and employment. As in the case of the juridical forms of ownership and management, *centralized* macro-economic policies actually modified the exercise of the private ownership of the means of production, in the direction of an increased *socialization*. The emergence of such mechanisms actually raises the issue of their *aims*. In whose interests do they work?

In the late nineteenth century, this control was ensured by large private financial institutions (in the USA, mostly large New York banks in the *National Banking System*). The main concern was the stability of the purchasing power of money in terms of gold, and the stability of the financial system.⁷ The stabilization of the macro-economy gradually became an objective *per se*. The shock of the Great Depression and World War II inaugurated the era of Keynesianism with the involvement of the state (the central bank) and new aims. The capitalist class saw this as an encroachment on its power, since these aims included full employment and affected price stability (the preservation of accumulated capital). The recognition of the right to work and the establishment of the welfare state after World War II considerably modified the wage relation, as labour power was gradually treated less and less as an ordinary commodity. Under neoliberalism, however, the earlier objectives of finance were restored, with a renewed contempt for the problem of unemployment and an overriding concern for price stability. There has been and there will be no reversal of this 'macro-economic' component of the private ownership of the means of production; only the specific macro-economic targets set within it are at issue.

1.2.3 Maximizing the profit rate

The profit rate is a key variable in the functioning of capitalism and the mechanisms involved undergo significant transformations. The *maximizing of the profit rate* performs, in its own way, a number of necessary economic tasks. It determines the efficient use of inputs and resources; it guides the selection of the most efficient techniques and the choice between various fields of investment (among firms and industries). It also drives the efforts made by individual firms to stimulate demand.

There is an important political component embedded in the undertaking of these functions. In particular, the first function (economizing in the use of resources) implies: (1) the forms and degrees of the pressure exercised on workers, given their resistance and the existing set of regulations; and (2) a similar impact on the environment, on the rules regulating its preservation (given the resistance of various fractions of the population). There is obviously an international aspect to this search for profits too, which accounts for the *imperialist* features of the leading capitalist countries (their rivalry and their domination over the periphery).

The maximizing of the profit rate is an expression of the capitalist nature of the relations of production, but this capitalist feature also depends on: (1) the contours of various fields partially insulated from the profitability criterion (e.g. defence, education, health, research); (2) the private appropriation of the surplus as the income of a class of owners; (3) the concentration of wealth among the few; (4) the effects of regulations and policies (as particular components of the general functions of the state), macro-economic 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 in Marx’s analytical framework in *Capital*. The position of the productive worker vis-à-vis the means of production was also modified. As the delegation of capitalist functions progressed, the control of the productive worker over the labour process was further diminished.

The complexity of the contemporary class pattern of capitalism is an 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 fractions of the ruling classes coexist (cooperate but also fight, to various degrees). At the top of the social hierarchy are capitalist owners and managers, just like the aristocracy and bourgeoisie 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. One concerns the content and extension of cooperation among the fractions of the ruling classes, such as management and capitalists, within various state or parastatal institutions. There is an *interface* between these classes, the world of boards of directors where owners still engaged in some form of management collaborate with top managers, who are also owners to a certain extent. This interface is crucial to the preservation of a type of capitalism where ownership and management are basically separated. The other aspect concerns compromise with broader fractions of the population. At issue are the participation of larger sections of salaried workers in prosperity, when it exists, and the stringency of the discipline recurrently imposed on these groups, etc.

As recalled in section 1.1, the state is the locus of the formation and preserva-

tion of power configurations. This is true of the cooperation between 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 are of primary importance in the definition of power configurations. Since the beginning of the twentieth century, with 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 portfolios of financial securities.⁹ This hegemony is always tempered by the alliance with top management, but during such a hegemony the rules of the owners are basically endorsed by top management. Schematically, two such periods of hegemony have existed, one at the beginning of the century and another since the 1980s. They were separated by the *Keynesian compromise*, in which finance was 'repressed' to a certain extent, and in which top management, in its private and public components, was 'reunited' to some extent with the other fractions of management. Keynesianism limited the prerogatives of finance concerning what we called above the 'macro-economic' facet of capitalist ownership; it encouraged sectional behaviour by managers and established a rather broad compromise among wage-earners; it extended the field of activities freed from the necessity to maximize the profit rate (i.e. 'the market').¹⁰

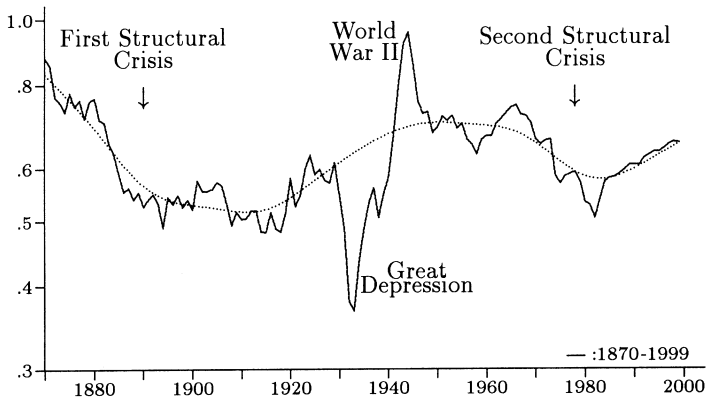
Actually, the emergence and stabilization of neoliberalism would have been impossible without the convergence of top management and capitalist owners, a modification in the content of the compromise characteristic of the interface. The *right turn* of the 1980s, analyzed by Thomas Ferguson and Joel Rogers¹¹, and the consolidation of neoliberalism, cannot be reduced to the rise of the reactionary forces which originally backed Ronald Reagan. President Reagan simply adjusted his policies in line with other business groups.

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 in section 1.1 we called *trajectories à la Marx*, whose central feature is a declining profit rate. Such declines lead to structural crises. In our opinion, this framework of analysis is still very relevant to the study of capitalism, with the proviso that structural crises failed to cause the collapse of capitalism but instead stimulated its transformation, making possible fresh upswings in the profit rate.¹²

As shown in Figure 1, the succession of various phases in the USA since the Civil War is particularly evident in the profile of the *productivity of capital*. The dotted 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. Unless otherwise specified, the series in the figures are the results of authors' computations on the basis of national accounting frameworks.¹³ A first phase of decline is apparent in the late nineteenth century leading to the structural crisis of the 1890s;

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



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 backward fractions of the productive system; 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; eventually there is a new trend upward.

These movements are related to the transformations in the 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 increased efficiency in the use of capital (in all components of activity: within the workshop, with Taylorism and the assembly line, but also in commercial activities, and in inventory and liquidity management). In our opinion, a new revolution in management is presently under way, whose effects have 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 allows for gradual improvements in efficiency and diminishing costs, but it is clear that other organizational elements are also involved. 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 dominance 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 centre over the periphery under US leadership.

1.2.7 *Periodizing capitalism in the twentieth century*

A basic problem in the periodization of capitalism is the existence of various competing criteria.¹⁴ The transformations of relations of production (with their multiple elements), class patterns, power configurations, technical trends and crises, as well as stages of imperialism, all are potential alternative 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 in macro-policies and the establishment of the Keynesian compromise, following the Great Depression and World War II, occurred during a period of continuing favourable trends in technology and distribution (see above, section 1.2.5); the depression resulted in part from the rapidity of technical change, but also from the slow adjustment of macro-policies and institutions. The various criteria delineate different periods, and their combination easily degenerates into the multiplication of sub-periods. Structural crises and wars are convenient markers.

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, the following general comments may be made concerning the nature and content of neoliberalism.¹⁵ (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 respects, while blocking it in others. What is at issue is only the modification of earlier trends. First, as in the first period of the hegemony of finance, in the early twentieth century, neoliberalism strengthened the separation between ownership and management. It accelerated the development of large non-financial corporations managed by business staffs; salaried management grew within financial institutions (like mutual and pension funds). The new pro-merger attitude of the government helped this development. Second, the behavioural 'bias' of managers and public officials is important here. This is what is key in the new pro-finance model of corporate governance, regulations, and policies: moving away from managerial autonomy within corporations, and away from the Keynesian compromise and the state. Neoliberalism meant the unambiguous reassertion of the maximization of the profit rate in every dimension of activity (see above, section 1.2.1). (2) In spite of the rise of managerial and clerical personnel engaged in financial activity, neoliberalism cannot be defined in terms of specific class patterns. This general observation must, however, be qualified in some respects. An important point is that there will be no 'euthanasia of the rentier' (if such a process was ever underway). In addition, reliance on extreme social inequality may prolong or extend the most acute forms of exploitation for a fraction of productive workers, and simultaneously enlarge the proportion of personnel engaged in personal services. Neoliberalism reinforces the tendency of capitalism to keep the lower strata of wage workers where they are, rather than advance them into the upper strata. (3) Unemployment will be used, as was tradi-

tional in capitalism, as a lever to control labour costs and to discipline wage workers. The stability of prices will ensure the preservation of the wealth of the holders of monetary and financial assets. Neoliberalism is thus a form of 'aggressive' capitalism. (4) The new more favourable patterns of technical change of recent decades, if maintained, might open a new path 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. Moreover, neoliberal or not, the capitalism of the future is not immune to new trajectories *à la Marx* and the accompanying structural crises. This point is politically important because of the way propaganda tends to classify all 'favourable' aspects of contemporary capitalism as features of neoliberalism. (This underlines the importance of a careful approach to periodization.)

Two definitions of neoliberalism can, then, be given. (1) In a narrow sense, the term *neoliberalism* can be used to designate a course of events, a set of 'policies', that occurred during the 1980s and 1990s, with the potential to lead to a new phase of development. 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 to nineteenth century capitalism, but it goes without saying that the notion of restoration does not imply that the new course of capitalism is 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 historical 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 could be significant. It could even be so large that the term *neoliberalism* comes to appear inappropriate to designate longer-term developments.

II CONTRADICTIONS?

Do any of the traits of the last twenty years put in question the sustainability of neoliberal capitalism? Can we detect any internal contradictions? In this second section, we basically consider the US economy, which we compare with the average of three European countries (France, Germany, and the United Kingdom),¹⁶ and with France alone.¹⁷ (Japan should obviously be considered in a more extensive study.)

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.¹⁸

Even at the centre of the capitalist world economy, the lower fractions of the population were injured by neoliberalism. Unemployment reached double-digit

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

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

Source: the data are from E. Wolff, *Top Heavy*, The New Press: New York, 1996, supplemented by more recent estimates.

levels, briefly in the USA after the change in monetary policy, and remained close to such levels in Europe for fifteen years. Simultaneously, the wealthiest fraction significantly improved its income and wealth.

There is a specifically *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, one set of households and the state, to financial institutions and, basically, another set of households. The dramatic rise of the stock market from the mid-1980s added to this increasingly unequal distribution of wealth.¹⁹ The astounding ‘compensation’ of top managers has also been frequently emphasized.

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

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. From the mid-1980s onwards they were able to impose tight controls on the growth of wage costs and to enlarge, to an astonishing extent, their own ‘siphoning off’ of profits. They restored their position dramatically, even *prior* to the appearance of the new upward trend in the profit rate.

One may question the sustainability of this course of development in the long run. In the first place, the stagnation of wages (manifested in the increasing share

of profits despite the slow growth of labour productivity) has played an important role in the recent recovery of the profit rate, and the growth of the cost of workers' benefits has been gradually reduced. Two basic trade-offs are involved, between: (1) wage costs and profits; and (2) income transfers favourable to finance and accumulation.

Secondly, the struggle of wage-earners for better working conditions and living standards suffered a double blow: its defeat during the structural crisis and the assertion of neoliberalism; and the collapse of any alternative to capitalism in the 'socialist' countries (actually a long history of gradual disillusionment), and the failure of all social-democratic or Keynesian reformist ways out. The discouraging consequences of these setbacks will not last for ever. Unless the present technological advance is prolonged, creating durable conditions for a relaxation of these trade-offs, it will become more and more difficult to repress labour.

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 wealthiest), or a shift towards a more and more authoritarian regime.²⁰

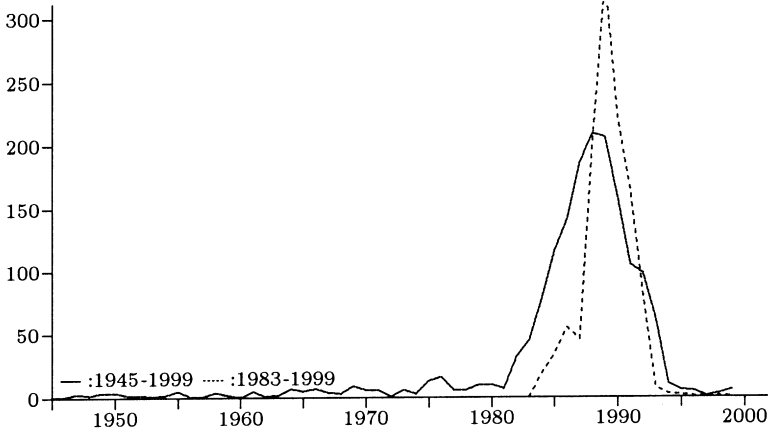
2.1.2 'All capitalists'

Neoliberalism broke the solidarity of wage-earners and destroyed the compromise which had set limits to the power of finance, which had characterized the Keynesian years. The leading social role in the old power configuration had been played by managerial personnel (managers, engineers, professionals) within both private corporations and state and parastatal administration. The arrangement affected wage-earners in general *via* the commitment to full-employment, larger access to education, and the welfare state in general. In spite of the controls over finance, the relationship with finance was also one of compromise. The primary limitation to the earlier pre-eminence of finance concerned the control of credit, by regulations and new monetary policy targets (see above, section 1.2.2), while other aspects of financial activity (notably the allocation of capital) were less affected, notwithstanding the limits placed on horizontal mergers and restrictions on the financial activities of the commercial banks, and on international movements of capital. This raises the question of what new compromise might be substituted for that which prevailed during the Keynesian years.

It is easy to understand that crucial to the neoliberal program of restoring the power and income of capitalist owners within advanced managerial capitalism is their relationship with management. 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 strongly associated with the new flow of income toward finance. This feature is so congenial to neoliberalism that it can hardly even be described as a social compromise. Such a 'compromise' would, in any event, belong to the first category outlined above in section 1.2.4: cooperation between the various fractions of the ruling classes.

But the establishment of a broader compromise, including the middle classes,

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



FDIC: Federal Deposit Insurance Corporation

is crucial to the survival of neoliberalism. The slogan is ‘everyone is a capitalist’. Its main practical components are: (1) the distribution of shares to wage-earners, as a supplement to their wages; (2) stock options; and (3) pension funds. The effectiveness of these devices is increased by tax incentives. Institutions such as pension and mutual funds, which developed before neoliberalism, expanded to unprecedented levels and will remain a central element in the neoliberal edifice, associating the upper half of households with the fate of capital. In the establishment of this compromise, the dramatic rise of the stock market from the mid-1980s onwards acted like a bonanza. The middle classes who had some financial assets actually subscribed to the view that the most lax capitalist rules increased their living standards, and that class barriers could be gradually overcome. This favourable 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 especially prone to monetary and financial crises? Does such a propensity put its survival in question? In this discussion, we will distinguish between domestic and international issues.

2.2.1 Domestic issues: financial crisis and macro-stability

In the USA the rise of neoliberalism created a significant financial crisis during the 1980s. 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 shows the number of banks and savings associations which failed or were rescued. The figures speak for themselves. 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*

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



The variable depicted is the growth rate of each quarter in comparison to the same quarter one year earlier. The dotted line is a trend line abstracting from shorter-term fluctuations. The short horizontal segments describe the average growth rates for the two periods 1952-74 and 1976-2000.

Developed Countries was considerable. Most other advanced capitalist countries were also affected to various degrees. This financial crisis was an expression of the deepening of the structural crisis and the implementation of neoliberalism, and can be interpreted as a transitional phenomenon. A primary lesson is that after the early reluctance to act by the Reagan administration, which claimed that the ‘market’ would take care of the situation, the US government and monetary policy did much to stop the problems of the financial system spreading to the real economy.

This sharp disturbance of the working of financial institutions at the centre must be contrasted with the relative stability of the macro-economy (a rather stable rate of growth) from the mid-1980s onwards. Figure 4 depicts the yearly growth rate of output for each quarter since 1975 in the USA. One can see 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 markedly stable during the rest of the period, with the exception of the 1993 recession. Thus, beyond the initial period of dramatic disturbance (the transition years), neoliberalism can claim to have made a contribution to macro-economic stability. Despite the decline which began in 2000, this is an object of pride in the USA.²²

The analysis of these developments refers to basic macro-economic mechanisms. The crucial issue, in these respects, is one of stability (see Box overleaf).

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 indi-

BUSINESS-CYCLE FLUCTUATIONS
MONETARY AND FINANCIAL (IN)STABILITY

Under 'ordinary' conditions, i.e., in the absence of exceptional shocks and destabilization of monetary and financial institutions, demand levels, in contemporary capitalism, are controlled, during the phases of the business cycle, by monetary policy (in particular, in the USA, by mortgage credit for housing purchases).²³ 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.

'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, affecting the demand behaviour of households and the supply and demand behaviour of firms. A recession may follow, destabilizing demand and output levels. As was the case in the USA during the 1930s and the early 1980s (during the monetary and financial crisis), and as is presently the case in Japan, such shocks affect the functioning of the banking system, a key driver in the mechanisms 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 activity. In the latter case, a public deficit (borrowings by the government, one channel in the issue of money) is required, though not necessarily sufficient.

cated in its name, there were two facets to the US *Deregulation and Monetary Control Act* of 1980. New prerogatives were given to the central bank, which were required by the need to exercise strong pressure on the economy, targeted at the elimination of inflation. The commitment to intervention under more dramatic circumstances also remains strong (as shown by the government's reaction to the banking and savings and loans associations crises in the 1980s). *With respect to macro-policy, neoliberalism did not destroy but reinforced the institutions of Keynesianism, except that the targets were changed — price stability rather than full employment.*²⁴

Overall, the comparison between the two periods of financial hegemony is telling. There is continuity in 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 during the second, neoliberal, hegemony, the tools of Keynesian macro-economic policy were inherited and effectively used by and for finance.

2.2.2 International issues: instability and US hegemony

The most dramatic crises of neoliberalism were the international monetary and financial crises of the 1980s and 1990s, beginning with the debt crisis of the *Less Developed Countries* in 1982; then the crisis of the Mexican economy in 1994, those of South-East Asia in 1997, of South America and Russia in 1998, and most

recently of Turkey in 2000–01. Independently 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, which was 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.

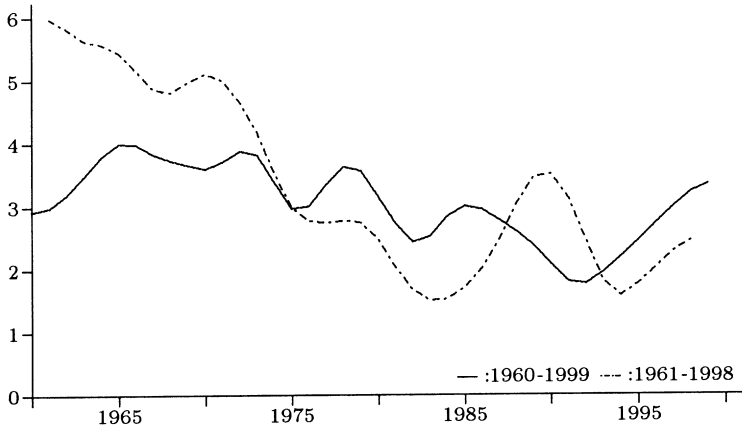
The international institutions of Keynesianism, the IMF and the World Bank, also survived the transition to neoliberalism, but, like the central banks of capitalist countries, the targets of their activity were redirected. They became the agents of the diffusion of the neoliberal order throughout the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

Already, the Bretton Woods agreements had failed to create a genuine international bank, with its own, independent, currency. A special role had been given in the final agreement to currencies potentially ‘as good as gold’, i.e., the dollar. When the dominance of the USA 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 pre-eminence.²⁵ On the contrary, its hegemony was maintained in a new institutional context, that of flexible exchange rates and gradually liberated flows of capital. Indeed the most conspicuous, almost caricatural form, of US hegemony is the gradual dollarization 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, particularly the USA. Contrary to what occurred domestically, no strong framework has emerged with responsibility for maintaining the international monetary and financial stability of the world economy. Regardless of the class content of the reasons for this, it poses an important threat to international stability. It is a serious contradiction within neoliberalism, linked to the transition away from many of the components of the Bretton Woods agreements (periodically adjustable rates of exchange, limitations on the mobility of capital during periods of crisis, etc.). Its most threatening aspect is the failure to impose a regulatory framework limiting the movement of capital whenever and wherever necessary, and, more generally, to regulate international financial and monetary institutions and mechanisms.

A major reason for this failure to establish an independent set of international institutions was the USA’s determination to preserve its hegemony. There are strong similarities between the resistance of private finance in the early twentieth century to the emergence of adequate mechanisms for macro-economic stabilization, and the resistance of the USA both to the establishment of such an international framework after World War II and to the transformation of monetary and financial institutions in the wake of the crisis of the dollar.

Figure 5: Rate of accumulation (%): France, Germany, and United Kingdom (—•—), and the USA (—)



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 smoothed to abstract from short-term fluctuations.

2.3 Accumulating capital

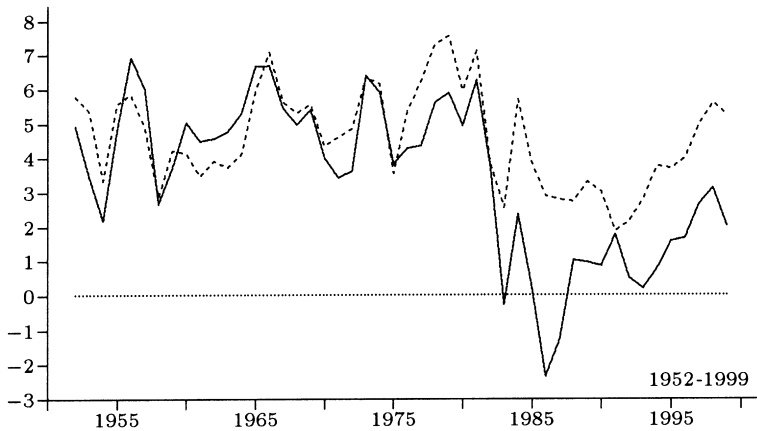
2.3.1 Slow accumulation

The accumulation of capital under 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 rates within the major capitalist countries, and it raises the question of the compatibility between rapid accumulation and the large transfers of income toward financial institutions and rich households that are characteristic of neoliberalism. Note that the contrary view is presently dominant. The neoliberal creed is: (1) the USA is the leading neoliberal country; (2) its economic 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 USA.

But basic observations contradict this dogma. Figure 5 shows the rate of accumulation in the USA and the average of three European countries since the 1960s. The two curves show a declining trend, and the different patterns of evolution in Europe and in the USA, especially since the mid-1980s. Despite the fluctuation upward in the 1990s in the USA there is no neoliberal miracle guiding accumulation. The rate of accumulation moves cyclically: most likely, the last points in the series for the USA will appear as a peak, and it is not yet possible to detect the trend upward which should follow from the rise in the profit rate. Figure 6 shows the rate of net investment in the USA. It shows that investment only recovered to its pre-neoliberal levels in the late 1990s.²⁶

It is a common feature of neoliberalism, in both the USA and Europe, that very large fractions of profits are paid in interest and dividends. Consequently,

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

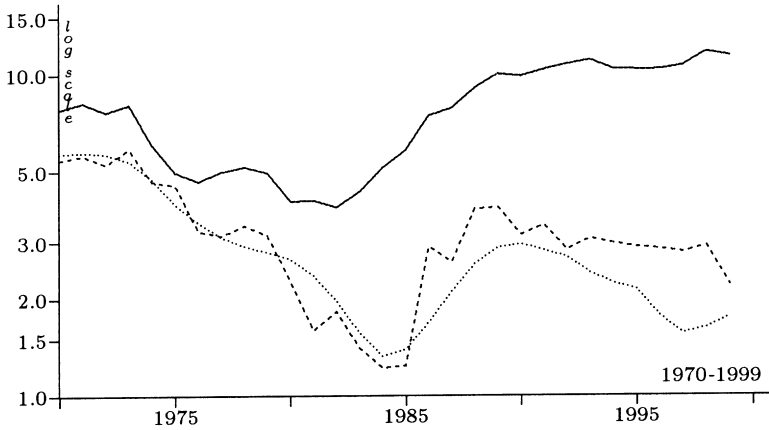


Investment is that of enterprises. In this context, net means after subtracting the depreciation of fixed capital. Savings are the difference between the total net product and all purchases of goods and services (including the purchase of residential capital by households) other than the investment by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

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 does the accumulation rate (which is tightly linked to the rate of retained profits). This is illustrated in Figure 7, in the case 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 rate of transfer of profits to finance, with the effect that the rate of retained profits remains below the level of the 1970s; (3) the close correlation between the rate of retained profits and the rate of accumulation.²⁷ A central feature of neoliberalism is that the investment of non-financial corporations is self-financed. In the USA this has been the case since World War II, and continues to be so. In France heavy reliance on borrowing disappeared 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 do not return to it. This is a central contradiction of 'actually existing 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 is 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 non-financial sector in the form of new loans and newly issued shares. But this has not been the case so far. It is rather intuitive that high real interest rates

Figure 7: Rate of profit before the payment of interest and dividends (—), rate of retained profits (after these payments) (---), and accumulation rate (·····) (%): France, non-financial 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 (—).

discourage borrowing, but these trends suggest, more surprisingly, that in the relationship between the productive sector and the stock market *maximizing the market price of corporations* has been more important, or at least more successful, than relying on financial markets to finance accumulation. (The repurchase of their own shares by corporations is, of course, negative accumulation.) No other feature of neoliberalism shows so clearly that its ruling classes are parasitic, and the capability of neoliberalism to meet the requirements of accumulation will be crucial in the long run.²⁸

2.3.2 Advanced capitalist countries: Growth under US hegemony

A basic flaw in the neoliberal creed (see section 2.3.1 above) is the second proposition in the neoliberal mantra: the growth differential between the USA and Europe and Japan. Attributing this to the beneficial effects of neoliberalism overlooks the advantages of the USA's hegemony, in particular the pre-eminence of the dollar, its so-called *seignorage*.²⁹

As is well known, US accumulation was not financed, after the beginning of the 1980s, by domestic savings but by foreign savings. As shown in Figure 6, the rate of savings of all agents in the USA 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 domestic investment and savings.³⁰

It is difficult to balance US domestic factors and international determinants in explaining this unusual situation. On average, profit rates do not appear larger in the USA than in Europe,³¹ and it is not clear that foreign capital was attracted by larger profitability levels in the USA. Capital flows to the USA seem to be more a consequence of US domestic policy, 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 high spending levels (consumption plus purchases of residential capital by households) in the USA, and hence the very low levels of domestic savings. This is where the absence of external constraint and reliance on external deficits is crucial.

Thus 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 USA, as the leading example of neoliberalism, is supposed to teach seems quite dependent on the USA's hegemony. A new balance of power, in favour of Japan and, to a lesser extent, Europe, would fundamentally challenge the alleged virtues of neoliberalism in relation to accumulation and growth. The US example does not demonstrate the ability of neoliberalism to achieve growth, first, because US accumulation is not strong (see section 2.3.1 above) and, second, because much of the USA's superior performance can be imputed to their world hegemony rather than to their comparative advance along the neoliberal route.

2.3.3 Prosperity and the bubble

In the analysis of the growth of the economy an important role is often attributed to the stock market rise of the late 1990s, in particular in the USA,³³ and this could be seen as grounds for questioning the ability of neoliberalism to maintain continuously growing levels of demand.³⁴ If this view were sound it would indeed signal a significant contradiction in the functioning of capitalism under neoliberalism.

The parallel between the last two decades and the beginning of the twentieth century, and the occurrence of the Great Depression, plays an important role here. The 1920s and the last fifteen years of the twentieth century 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 indices. Keynesian economists see a connection between demand and stock indices 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 activity had been previously stimulated by the rise of the stock market (as a result of a *wealth effect*).³⁶ The same would presumably be true of the recent prosperity in the USA, at least during the 1990s.

A preliminary difficulty with this interpretation of contemporary spending levels in the USA is that the speculative boom was common to most advanced capitalist countries, with the obvious exception of Japan, and was not stronger in

the USA 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 USA. 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 affects their spending and borrowing behaviour, but monetary policy is still powerful (see section 2.2.1 above, and Box) and can adjust the levels of demand against the pressure of other determinants (i.e., *ex post*). In the absence of a rise of the stock market, monetary policy could have performed its tasks even more easily. The same will be true after the current market adjustment, provided that the monetary and financial framework is not unsettled in the process.

Much confusion is created by the coexistence in the USA of the stock market bubble, the rise of household credit, and external deficits. A quite unusual chain of events has been at work: (1) loans stimulate the spending of households (consumption and purchase of housing) — possibly, for a fraction of the population, through the inducement of the rising stock market; (2) the additional total spending (i.e., spending of households plus investment by firms) is purchased from abroad without significant inflationary consequences for domestic prices; (3) the normal utilization of productive capacity, *via* the control of price stability, is assured with great care by monetary policy.

Overall, it appears that a speculative bubble is a predictable development in the context of a merger wave, the 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, or under 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, a ‘soft landing’ may be a condition for the continuation of the new course of capitalism. Without the bubble, neoliberalism would be neither more nor less apt to secure accumulation and growth.

2.4 *Improving technology*

It becomes more and more clear that about in the mid-1980s a period characterized by more favourable conditions of technical change began (see section 1.2.5). In Europe as in the USA the declining trend of the productivity of capital was not only interrupted but reversed (see Figure 1), and profit rates tended 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, together with 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 twentieth century, once again in the wake of a structural crisis (see section 1.2.5). The similarity between these two episodes is large. The managerial revolution of the early twentieth century was tightly linked to the preceding merger wave (the ‘corporate revolution’); both finance and management were involved (in the context of the separation between ownership and management). The same is true of the transformations of the last two or three decades of the twentieth century. Obviously, the new technologies benefited from earlier R & D, and appear basically to have been a managerial achievement, the work of engineers and specialists. The previous merger wave, the *conglomerate* wave, had managerial features, related to the prevailing antitrust legislation, but under neoliberalism finance changed the rules and a pro-merger attitude was adopted.³⁸ Finance allowed for the restructuring of the economy, modifying the juridical framework and its application, and provided the necessary coordination and funding; and 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 to have made 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, however, crucial to the future of neoliberalism and capitalism in general. We have no prognosis to offer in this respect. The pattern of events in the twentieth century suggests only that specific risks accompany rapid technical change, as shown by the Great Depression, while on the other hand the benefits of a technical and organizational revolution may last several decades.

III BEYOND NEOLIBERALISM?

This last section 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.

3.1 *Tendencies and crises*

A common feature of all significant changes in the period covered in this essay is their relation to crises. This basic function of economic ‘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 great *instability*. The favourable course of technical change, opening a new phase of capitalism and financial hegemony, as in the beginning of the twentieth century, is suddenly and provisionally interrupted by a major depression, like that of the 1930s. The Great Depression was the *crisis of the recovery from the structural crisis of the late nineteenth century under financial hegemony*, with a significant mone-

tary and financial component. The entire sequence of events could be reproduced: (1) structural crisis (that of the 1970s); (2) new favourable trends (presently underway), and a new hegemony of finance (as is also the case now); (3) a major crisis (recurrently announced); (4) a second period of controls on finance and a new social compromise.

If the path of technical change is less rapid, or if the favourable trends observed during the last fifteen years come to an end or are reversed, difficulties will be felt *via* 'significant' crises. They will be aggravated by social tensions (caused, for example, by stagnating wages or the difficulty of financing retirement plans) and international confrontations (which may impose new monetary and financial rules). Instead of maintaining its prerogatives, finance will have to gradually retreat. The transfer of profits in its favour will be limited and new regulations will be imposed. Neoliberalism faces this potential scenario in the medium run.

A spectacular development would be the occurrence of a new structural crisis (such as that of the 1890s and 1970s). History would then repeat itself yet again and a new power configuration would be imposed in the wake of such a crisis (as was the case in the transition between the 1970s and 1980s), but the new element would be that finance would be in command, instead of 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 the 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 non-financial corporations and financial institutions. Neoliberalism was possible, because it did not interrupt these developments but strengthened them. In all instances, the issue was the definition of *targets*: managing *firms* and the *macro-economy* in the interest of the owners, with much contempt for the costs borne by other classes or countries.

It is not clear that neoliberalism can measure up to the task of furthering this socialization in all of its components, as listed above. The question is, therefore, posed, whether there is a fundamental contradiction between this historical task and the narrow perspective of the interests of the owners. This essay set out a number of significant limitations. (1) The current forms of capital ownership still guarantee a large degree of initiative for finance which is incompatible with the quest for monetary and financial stability. First, they still allow the collective retreat of financial investors whenever they are confronted by potential losses (as manifested in international financial crises and collapses of the stock market). Macro-policies are only efficient under 'ordinary' conditions, and monetary and financial disturbances jeopardize their effectiveness. Second, the other facet of ownership — the allocation of capital among industries and firms — is still largely subject to the very volatile expectations of major financial institutions, such as

pension and insurance funds, motivated solely by the interests of their customers, again with potentially negative macro-consequences. (2) Despite the involvement of finance in the definition of the new more favourable 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 levels of the socialization of R & D and the implementation of innovation, i.e., a more profound transformation of relations of production beyond the basic profit-maximizing requirements of individual firms or corporate alliances.

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 under neoliberalism are easy to infer from the events of the last two decades and the associated propaganda. Capitalism is the end of history. The owners of capital consolidate their position and income, and govern in close collaboration with top management. A broader compromise is established with the upper middle classes, who benefit from slowly rising purchasing power, health insurance, and pension funds; they share the benefits of a rising stock market (after a 'soft landing') and high interest rates. Accumulation rates are reasonable and crises are limited in extent. This is made possible by the continuing favourable shape of technical change. The hierarchy of wage-earners remains strong, but the situation is under control. Thanks to the export of capital to peripheral countries, segments of the population in the periphery are gradually moving toward a status similar to that of the lower income brackets of the centre; small elites collaborate with the ruling groups of the major capitalist countries. The USA leads the way, followed by Europe and Japan (finally adjusted to the benefits of neoliberalism), and, at some distance, by the more cooperative other countries.

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

3.3.2 Beyond neoliberalism: the pursuit of history?

An alternative outcome is that the neoliberal power configuration will be destabilized, following one of the alternative scenarios outlined earlier. Just as the structural crisis of the 1970s paved the way for the come-back of capitalist owners, a logical consequence of our analysis is that a new compromise will then have to be struck between the leading managerial classes and the rest of the labour force (or at least some fractions of it). Depending on the form and extent of class strug-

gles, the managerial and popular components of the configuration of power will be more or less accentuated — anywhere from a new form of Keynesianism to some more radical transformation.

Regardless of its precise social content, there are certain tasks essential to capitalism that any new compromise will have to carry out. The first historical setback to finance introduced the socialization of the *control of the macro-economy*, 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 to achieve more efficient technical progress and accumulation. (Possible directions for this were suggested during the decades of the Keynesian compromise, but none of them was successfully implemented, neither the preservation of the favourable path of technical change, nor strong accumulation — hence inflation, hence unemployment.) The economics of a new compromise will be largely determined by its politics. Capitalism is not the end of history.

NOTES

- 1 G. Duménil, D. Lévy, 2001, ‘Costs and Benefits of Neoliberalism. A class analysis’, forthcoming in *Review of International Political Economy*, 8.4.2000, *Crise et sortie de crise. Ordre et désordres néolibéraux*, Presses Universitaires de France, Paris.
- 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, *Phases of Capitalist Development: Booms, Crises, and Globalization*, London: Palgrave, 2001.
- 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*, 2000 (forthcoming)). See also: D. Foley, 2000, ‘Endogenous Technical Change with Externalities in a Classical Growth Model’, Department of Economics, Graduate Faculty, New School University, New York, forthcoming in *Journal of Economic Behavior and Organization*.
- 4 Hilferding analyzed one of its possible configurations (R. Hilferding, *Finance Capital: A study of the Latest Phase of Capitalist Development*, London & Boston: Routledge and Kegan Paul, [1910] 1981).
- 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.

- 7 To avoid bankruptcies, financial panics, and the suspensions of payments.
- 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 productive workers (when this difficulty is not simply ignored, other groups are classified as *petty bourgeois*); (2) an implicit revision — a new proletarian or working 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.
- 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*). 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 non-financial corporations (M. Soref & M. Zeitlin, 'Finance Capital and the Internal Structure of the Capitalist Class in the United States', in M. Mizruchi & M. Schwartz, *Intercorporate Relations. The Structural Analysis of Business*, Cambridge: Cambridge University Press, 1987. See also K. van der Pijl, *The Making of an Atlantic Ruling Class*, London & New York: Verso, 1984.
- 10 In some countries large segments of the productive system were placed under the control of state officials.
- 11 T. Ferguson & J. Rogers, 1986, *Right Turn. The Democrats and the Decline of American Politics*, New York: Hill and Wang, 1986.
- 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 and Paris: Cambridge University Press & Éditions de la Maison des Sciences de l'Homme, 1980).
- 13 A recent description of the series can be found in G. Duménil & D. Lévy, *Crise et sortie de crise. Ordre et désordres néolibéraux*, Paris: Presses Universitaires de France, 2000.
- 14 The paper excludes phenomena which are often used as markers 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.
- 15 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.
- 16 In 1995, the output of these three countries represented 70% of that of the USA.
- 17 This analysis borrows from Duménil & Lévy, 'Costs and Benefits of Neoliberalism'; *Crise et sortie de crise*, 2001
- 18 UNPD, *Human Development Report*, Bruxelles: De Boeck, 1999.
- 19 In the measurement of financial income (interest and dividends received plus capital gains), it is important to correct for the impact of inflation.
- 20 Immanuel Wallerstein sees in the growing demand for democratization one of the contradictions (in addition to the exhaustion of the reserves in cheap labour and ecological resources), which will provoke the final outbreak of capitalism, presently on the verge of entering its last Kondratieff cycle (I. Wallerstein, 'Globalization or the Age of Transition? A Long-Term View of the Trajectory of the World-System', *International Sociology*, Vol. XV(2), 2000).
- 21 Federal Deposit Insurance Corporation, *History of the Eighties. Lessons for the Future*, Washington: FDIC, 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 USA could enter a new recession (while Europe has not to date).
- 23 A theoretical exposition and modeling can be found in the third part of G. Duménil & D. Lévy, *La dynamique du capital. Un siècle d'économie américaine*, Paris: Presses Universitaires de France, 1996.
- 24 The balance of external accounts is a target to be taken into account in Europe, but not in the USA (section 2.3.2).
- 25 L. Panitch, 'The New Imperial State', *New Left Review*, March-April 2000.
- 26 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.
- 27 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%.
- 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 led 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 USA, such as its position in trade or financial international agreements, political pressure or military intervention.

- 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 trade deficit.
- 31 Labour costs remain higher in the USA 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 disposable 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 USA, reaching the unprecedented level of 95%.
- 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.
- 35 In our opinion, this interpretation is dubious: (1) The stock market fell after industrial production; (2) the depression continued 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.
- 37 At issue here is the degree of autonomy of the various levels of analysis: 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*, Vol. XLII(2), 1997. The basic characteristic of conglomerates was *diversification*, as the law limited mergers of firms engaged in the same activity.