



THIRTY YEARS OF NEOLIBERALISM UNDER US HEGEMONY

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1 - Introduction

There is some irony in the project of writing on "neoliberalism" in a period that will probably remain in historical memory as "the crisis of neoliberalism". At the end of the 1970s, capitalism entered into a new phase, neoliberal capitalism. After almost 30 years, in August 2007, a crisis struck the United States, the center of the neoliberal world. The crisis was originally denoted as the subprime crisis but, six months later, it was clear that the entire US financial sector was hit. In October 2008, it appeared that the entire planet was affected and the global economy entering into a period of contraction. Thus, the *subprime crisis* became *the crisis of global capitalism*. More time will be necessary to determine the features of the new phase that will prevail after neoliberalism and how radical the change will be.

The crisis is certainly the crisis of neoliberal capitalism but, to this first characterization, one must add "under US hegemony". A crucial feature of the three decades had been the consolidation of the dominance of this country within a unipolar imperial world. (In this context, "hegemony" means that the United States assumes a leadership among the much broader group of imperialist countries.) Both neoliberalism and US hegemony are now under threat.

What is *neoliberalism*? This is the object of the present study. In a nutshell, the answer is: a new social order, a class phenomenon whose basic *economic* and *political* mechanisms are tightly intertwined. In this analysis, a historical perspective is essential. The interpretation of a "new" period would be vain if the features of the previous period(s) were not clearly made explicit. But neoliberalism has also a history and a broad diversity of trajectories is at issue in various countries or regions of the world.

2 - A class analysis

Within the term "neoliberalism", the component "liberalism" suggests a clear reference to a free-market economy and this is certainly an appropriate characterization of what neoliberalism is about. It should, however, go without saying that this market is nothing else

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than a *capitalist* market. Liberalism refers here to the freedom to act on the part of economic agents. In any capitalist economy, this freedom is that of capitalist owners to hire and fire, while salaried workers sell their labor power if they can. But there is a problem of degree here. Neoliberalism gradually lifted regulations limiting the initiative of employers. Frontiers between countries typically placed limits on the exercise of this freedom and one well-known achievement of neoliberalism was to lift such barriers as much as possible: notably, all restrictions to trade and to the international mobility of capital. Neoliberal states are also strong actors and potential regulators when required according to neoliberal objectives (for example, the control of inflation). Nonetheless, neoliberalism is unquestionably a liberalism in the sense of free-market economics.

This first feature is, however, far from defining all the facets of neoliberalism. In each country, the new social order imposed a new discipline on workers, notably more demanding labor conditions, stagnating purchasing powers, and pressure on social protection (welfare). In the United States, the purchasing power of the great mass of wage-earners did not rise since the 1970s. A stricter discipline was also imposed on management: a new "corporate governance" where the exclusive objective of high management is the creation of value for shareholders. The difference between the conditions of workers and managers is that, in the stick-and-carrot metaphor, workers are on the stick side and managers rather on the carrot side. To this, one must had the dramatic transformation of policies and regulation. Neoliberal macro policies (monetary policy, exchange rate policy...) tend to ensure price stability rather than full employment. Regulation has been so radically adjusted to neoliberal objectives that it is often judged more appropriate to straightforwardly refer to *deregulation*.

All of these well-known aspects of neoliberalism point to a social order whose objective was the increase (actually a restoration, as will become clearer below) of the power and income of capitalist classes. In this sense, neoliberalism must be understood as a *class phenomenon*.¹ The main social actor in this transformation can be broadly defined as "upper classes", meaning the upper fractions of capitalist classes and the top of the pyramid of wage-earners, with significant overlapping. Financial institutions are crucial in the exercise of this power. The authors of this study coined the term "Finance" to refer to the upper fractions of capitalist classes and *their* financial institutions.²

¹ This interpretation was introduced during the second half of the 1990s by the authors of the present study (G. Duménil, D. Lévy, "*Coûts et avantages du néolibéralisme. Une analyse de classe*", in G. Duménil, D. Lévy, *Le triangle infernal. Crise, mondialisation, financiarisation*, Presses Universitaires de France, Paris, 1999, pp. 205-225; G. Duménil, D. Lévy, "*Costs and Benefits of Neoliberalism. A class analysis*", 2001, *The Review of International Political Economy*, Vol. 8(4), pp. 578-607.

² The phrases "financial capital" and "financial capitalism" are sometimes used. They are rather misleading since this terminology was introduced in the early 20th century by Rudolf Hilferding in reference to the fusion between the "magnates" of nonfinancial and financial sectors (Hilferding R., *Finance Capital: A Study of the Latest Phase of Capitalist Development*, Routledge and Kegan Paul, London, Boston, 1981). Contemporary capitalism is still a financial capitalism in this sense, but there is some irony in defining the specific aspect of the last phase of capitalism (neoliberalism) by a feature established more than one century ago.

This class objective of neoliberalism is clearly apparent in the transformation of income distribution in the United States. Figure 1 shows the share of the total income of US households received by the 1% with higher income (the fractile 99-100). One can observe that the percentage of about 8% reached during the 1970s soared to about 18% during the neoliberal decades, signaling a sharp concentration of income distribution to the benefit of the top of the income pyramid.



Figure 1: Share of total income (capital gains included) received by households in the 1% higher income-tax bracket in the United States (%)

The main channels of this restoration are well known. Everything was done to increase the profitability of corporations: stagnant purchasing power of wage-earners (use of subcontracting to diminish the cost of labor and increase flexibility), investment in countries where labor costs are low, use of new production and management technologies... In 1979, the Federal Reserve suddenly increased interest rates (the "1979 coup"), generating large flows of interest to lenders. The transformation of corporate governance led to the distribution of also large flows of dividends and stock-market indices began their hike. Financial sectors entered into new and very risky innovative procedures as clearly revealed by the analysis of the roots of the crisis of the late 2000s.

3 - Neoliberalism - Neoimperialism

Neoliberalism is often reduced to *globalization*. Neoliberalism accelerated many among the traditional components of globalization: free trade, investment worldwide, global financial mechanisms, and monetary mechanisms (with the crucial role of the dollar).

"Neoliberal globalization" is another name for imperialism in contemporary capitalism: the set of practices and mechanisms that tends to the extraction of a form of "surplus" from less advanced countries, always with the collaboration of local elites (classes or fractions of classes). This surplus may result from direct or any other type of investment, import of raw material, energy, or consumption goods at low costs, etc. That less advanced countries may "want" to be exploited does not alter the nature of this relationship, just as workers are eager to be exploited selling their labor force. The traditional political instruments of imperialism are corruption, subversion, and war.

During the 1990s, the percentage in US GDP of the flows of profits earned from US Direct Investments Abroad rose from 1.4% to 2.1%, with a sharp acceleration during the 2000s (3.7% en 2007). Concerning the income from other investments, a break in the early 1980s marked the rise of interest rates as recalled above.

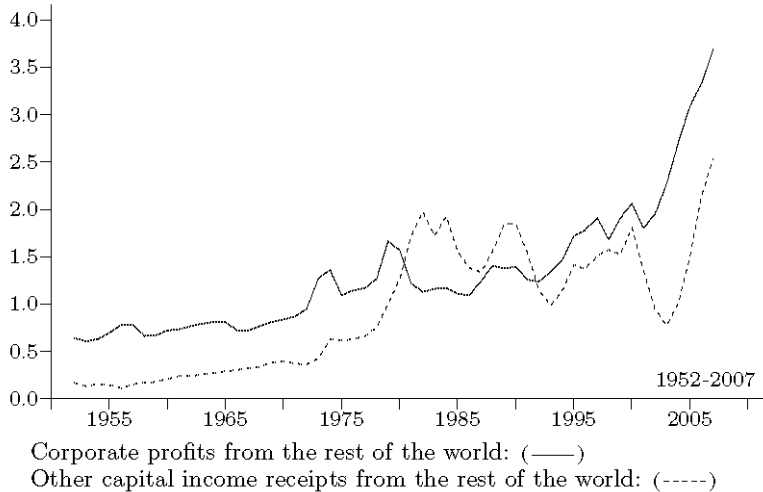


Figure 2: Profits and capital income from the rest of the world, United States (% of US GDP)

In the case of the United States, there is a symmetrical aspect to the exports of capital: the financing of the country by the rest of the world. Due to the deficit of its foreign trade, the main imperialist country in the world is not a "net" exporter of capital (outflows of capital minus inflows). The US economy receives financial investments from the rest of the world that are more than twice larger as the investments abroad of the country. A more detailed analysis reveals, however, that the United States import foreign capital *cheap* and export capital *expensive*. The rates of return realized on US capital exports are about twice higher than the rates obtained by foreigners when they invest in the United States. (This is largely due to the composition of the investments, the United States being the leaders of direct investment abroad in the world.)

4 - A new social order: a second financial hegemony

There are numerous manners of periodizing capitalism. Alternative criteria are the movements of the profit rate (upward or downward tendencies), the forms of competition ("perfect" or monopolistic), class patterns (the rise of "middle classes"), etc. The notion of *social order* refers to the hierarchies and compromises among classes or fractions of classes. In this perspective, neoliberalism can be denoted as a *second financial hegemony*, in reference to Finance as above. "Hegemony" refers to the dominance of the upper fraction of capitalist classes. "Compromise" refers to the relationship between these classes and the upper fractions of wage-earners, a managerial class including high officials.

This was the second financial hegemony in the history of capitalism since the emergence of the new forms of capital ownership (the corporate revolution) and the assertion of the modern financial sector in the late 19th century and at the beginning of the 20th century. The first decades of the 20th century saw the dominance of a new bourgeoisie, while managers were

executing the tasks of what Marx had denoted as the "active capitalist".³ The Great Depression and World War II destabilized this social order under the pressure of the popular movement, that is, class struggle worldwide.

A new social order was established after the war within the major capitalist countries. A first characteristic feature was a form of "containment" of the interests of capitalist classes, with a corporate governance targeted to growth and technical change and policies whose objectives were growth and full-employment. To this containment, one can oppose a compromise or alliance between the popular classes of workers and clerical personnel, on the one hand, and managerial personnel, on the other hand. Each aspect of neoliberalism above can be viewed as the "negative" of the previous features of the postwar decades.

The social compromise established after World War II can be called "social democratic" in reference to the countries of Northern Europe and most of Europe in general. The emphasis is, thus, on social equality, protection, education... An alternative denomination is "Keynesian compromise" when the emphasis is on macro policies and the large intervention of the state in the economy.

5 - Fordism, a misnomer?

In the Left academy, a broad use is made of the notion of "Fordism". The term harks back, on the one hand, to the spectacular transformation in the workshop, notably the assembly line and, on the other hand, the higher purchasing powers evocative of Henri Ford's "five dollars" daily-wages tending to the control of the labor force.

The use of the notion is based on the alleged correspondence between the two aspects above (technical-organizational change and the progress of purchasing powers) and some among the features of the 1950s, 1960s, and 1970s. In addition, these decades were a period of comparatively rapid economic growth. A link is established between the rise of purchasing powers and growth, in contrast to distributional trends during the 1920s when the share of profits was supposedly increasing. These features disappeared during the 1970s and the notion of "Toyotism" was put forward as a substitute during the few years in which the Japanese economy was doing better than the US economy (later abandoned when the Japanese economy entered into stagnation).

There is no much problem in placing the course of technological change under the name of Henri Ford, except an obvious exaggeration. The transformation of technology and organization during these decades can be broadly interpreted as the outcome of the deepening and gradual diffusion to the various sectors of the economy of the managerial revolution. The effect on profitability trends was dramatic.⁴ The reference to Fordism implies, however, a

³ Marx, K. *Capital, Volume III*, First Vintage Book Edition, New York, 1981.

⁴ Duménil G., Lévy D., *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard University Press, Boston, 2004.

causal relationship between the rising purchasing powers of the postwar decades and the large growth rates typical of the period in sharp contrast with the 1920s.⁵

There are both empirical and theoretical problems with this interpretation. First, it is not clear that the share of profit (or the profit rate) increased dramatically during the 1920s. Measures for the United States show that it was not so. The profit rate increased strongly during the war, but profits were transferred to the state by taxation and the after-tax profit rate remained about constant.⁶ Difficulties occurred during the 1970s when the profit rate declined in conformity with Marx's analysis. Theoretically, the problem lies in the Keynesian framework in which abstraction is made of credit mechanisms as necessary determinants of the levels of demand susceptible of guaranteeing the normal utilization of productive capacity.

6 - A broad variety of trajectories

The emphasis in the previous sections is on within the major capitalist countries. History is, however, more complex and the various regions of the world underwent significantly distinct trajectories. The main victims of neoliberalism were Latin America and Africa, while a number of Asian countries, of which China is emblematic, took advantage of neoliberalism. The case of Russia is also distinct.

Neoliberalism placed all workers in the world in a situation of competition. This was the effect of the simultaneous opening of trade frontiers and the free mobility of capital. For economic and political reasons, China belongs to the group of countries in which labor is cheap. A gradually larger fraction of commodity production is realized on such territories and the workers of developed countries were simultaneously forced to accept deteriorating labor conditions as well as sagging, or falling, purchasing power and social protection. But the availability of cheap labor is only one among the factors that allowed for the prevalence of strong growth trajectories in these countries. In the case of China, a strong Government and political stability were crucial elements. These countries entered the international division of labor but protected themselves against the ravages of neoliberalism with a strong state intervention and the control of capital flows. Countries like China and Russia are actually engaged in a process of primitive accumulation of capital, a transition to capitalism from the earlier soviet model.

Latin America switched from the postwar import-substitution models to neoliberalism, sometimes within extreme configurations as in the Argentina of the 1990s. After several decades of progress of labor power after World War II, the cost of labor in these countries was comparatively high. Drastic cuts were realized. These countries were the target of international investment but the earlier growth trajectories were dramatically broken. Neoliberalism caused dramatic crises in this region of the world as in Asia.

⁵ The insufficient growth of purchasing power was the explanation of the depression by the Brookings Institution during the 1930s (H. Moulton, *Income and Economic Progress*, The Brookings Institution, Washington, 1935).

⁶ G. Duménil, D. Lévy, *La dynamique du capital. Un siècle d'économie américaine*, Presses Universitaires de France, Paris, 1996, Ch. 19.

7 - The crisis of neoliberalism

When assessed from its own class objectives, up to the mid-2000s, neoliberalism could be judged a success. The income and wealth of the wealthiest rose tremendously, intrinsically and in comparison to the rest of the population. The crisis of the the end of the 2000s emphasizes, however, the contradiction of this bold class endeavor.

There was two strands of determinants in which the country played a central role for quite distinct reasons. The fact that the crisis originated in the United States is telling of its inner mechanisms.

A first category of determinants can be broadly classified under the general heading of "financialization". Financial mechanisms developed tremendously during the neoliberal decades, both in size and content (financial innovation). There was a sharp acceleration and change in nature after 2000. During the first decades of neoliberalism, large financial institutions grew rapidly, for example pension funds. Most of the ingredients of the post-2000 years were already there, notably securitization, derivative markets, the cutting-hedge of financial institutions such as hedge funds. But major financial variables reveal steep upward trends during the decades, sometimes since 2004 or 2005. Financial mechanisms were crucial instruments in the imposition of the new discipline of capital (as in the role of asset-managers) and allowed for tremendous returns to the benefit of the most advanced segments of capitalist classes, as in hedge funds. This was true in the United States and worldwide but the country was clearly leading in most respects and opening new paths. The crisis made the demonstration of the fragile architecture of the new financial edifice.

The second set of factors is typically rooted in the United States. It is the trajectory of external disequilibria of the country: the deficit of trade, the financing by the rest of the world, and the growing indebtedness of households. Both neoliberal corporate governance targeted to stock-market performances and the propensity of the US economy to import from the rest of the world imposed the rise of the debt of households to support demand and the remaining production on national territory. But the cost of this rising requirement was the mortgage wave, notably its subprime component, securitization, credit default swaps, etc. When this perilous chain was broken around 2006, the effect was that of a seismic wave and the entire financial edifice was destabilized.

As of the end of 2008, it is unlikely that neoliberalism will survive to the contemporary crisis. This outcome does not necessarily mean, however, a straightforward return to a social compromise as during the postwar years or, even less, a more radical transformation. Other variants of "regulated capitalism" might prevail. A new social arrangement can certainly be found within the components of upper classes, although the absolute centrality of capital income will probably not survive the crisis. Only the pressure of a powerful popular movement could impose a more desirable outcome. Distinct paths could be followed in various regions of the world.



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