

# THE ECONOMICS OF U.S. IMPERIALISM AT THE TURN OF THE 21<sup>st</sup> CENTURY

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## 1. Introduction

It is not easy to provide a comparative assessment of the situation of the U.S. economy at the turn of the 21<sup>st</sup> century. On the one hand, the domination of the United States on the world economy and its political and military preeminence appear even stronger in the early 2000s than in the late 1970s. On the other hand, the sudden contraction of the growth rates at the end of 2000, the ensuing recession, and the collapse of the stock market suggest a new, less favorable, course than during the second half of the 1990s. Even more importantly, the growing disequilibria of the U.S. economy—notably the external debt, and the debt of households and of the state—raise doubts concerning the capability of this country to maintain its unrivalled leadership. To put the matter very simply, the question is whether the U.S. economy can be deemed strong or weak in the early 2000s.

This assessment is crucial in the discussion of the arrogance of the international strategy of U.S. imperialism. Is it the expression of the consolidation of the power of the United States after a quarter of a century of neoliberalism? Not coincidentally, this phase of capitalism saw a comparative setback of Europe, stagnation in Japan, and recurrent crises in countries of the periphery in the wake of their opening to international capital. On the contrary, is it a reaction to a declining capability to rule the globe on “mere” economic grounds?

The main thesis in this paper is that such uncertainties and the corresponding diverging interpretations are rooted in the ambiguous situation of the U.S. economy at the turn of the century, domestically and internationally:

- In a sense, the global domination of the U.S. economy is very strong. The grasp of its nonfinancial transnational corporations on other countries is tight; the power of U.S. financial institutions is probably larger than ever; huge and growing flows of income are drawn from the world and contribute to the remuneration of capital in the country. In these respects, U.S. imperialism is, indeed, in great shape.
- The problems lie in the “internal” trajectory asserted in the country, and their consequences on external disequilibria. The continuing and strengthening imperial

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hold on the world economy coincided with the constant decline of domestic savings—the expression of a growing propensity to consume. This movement was a consequence of the growing income and wealth of the richest fraction of households, a fundamental characteristic of neoliberalism. It reached such degrees that the capability to spend of the country became thoroughly dependent on the import of goods, and opened new opportunities to the financial investment of foreigners. This foreign capital must also be remunerated, drawing important income flows out of the country.

The direction of causation between these two aspects of the U.S. economy, power on and dependency on foreign countries, is obviously difficult to establish, and the relation is, indeed, reciprocal.

Whatever the mechanisms, it is clear that the U.S. economy in the early 21<sup>st</sup> century combines the traditional attribute of imperialism, the export of goods and capital, to a symmetrical movement of goods and capital import, now larger than the former. But the course of imperialism since the early 1980s is deeply influenced by the neoliberal features of the period, and it is often difficult to separate these various components.

Section 2 introduces a number of basic notions useful in the analysis of the present stage of capitalism, such as *imperialism* and *neoliberalism*. The four following sections document the analysis sketched above. Section 3 accounts for the capability of the U.S. economy to draw income flows from other countries and the growing dependency of domestic capital income on this income drained from the rest of the world. Section 4 discusses the main features of U.S. investment abroad in comparison to foreign investment in the United States: the composition of investment and the rates of return. U.S. imperialism appears quite performing in these respects. Section 5 is devoted to the flows of income between the United States and other countries, both *inflows* and *outflows*, and to U.S. holdings on the rest of the world and foreign holdings on the United States. Globally, the analysis points to a gradually deteriorating international situation of the United States. Section 6 explains this deterioration by the neoliberal “domestic” trajectory and, specifically, by the growing propensity to consume of the richest fraction of households. Thus, the basic contradictions in the course of U.S. capitalism during the last decades lies in this neoliberal feature and not in its imperial capabilities.

This study, devoted to the economics of imperialism, abstracts from important aspects of contemporary capitalism. This is, in particular, the case of the new trends of technological change and profitability asserted since the early 1980s. The basic features of neoliberalism are only briefly addressed.<sup>1</sup>

## **2. Capitalism at the turn of the 21<sup>st</sup> century : Neoliberalism, imperialism and U.S. hegemony**

At the transition between the 1970s and 1980s, capitalism entered into a new phase called *neoliberalism*. Indeed, it is possible to refer to a neoliberal ideology, the apology of free markets (nationally and internationally) and the corresponding disengagement of the state from economic affairs, but neoliberalism fundamentally defines a new stage of capitalism. Some among the main components of this new phase do relate to free markets, notably the imposition of global free trade, the freedom on the part of enterprises to hire and fire, and the

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<sup>1</sup> See G. Duménil, D. Lévy, 2001, 2004a, and 2004b.

free international circulation of capital. This does not mean, however, that the intervention of the state, in the broad sense of the term<sup>2</sup>, was diminished. In some respects, in particular monetary policy, the power of state institutions were increased. In all countries, states were the agents of the imposition of the neoliberal order.<sup>3</sup> Internationally, institutions, such as the International Monetary Fund, play a quasi-state role in the imposition of the neoliberal order to the planet. Everywhere, a new discipline was imposed on workers and management to the benefit of shareholders; interest rates were raised to the benefit of lenders.

Neoliberalism is actually a new social configuration in which the power and income of ruling classes was reestablished after a few decades of partial repression in the wake of the Great Depression and World War II. After the war, the concentration of wealth among a minority of rich families and the inequalities in the distribution of income were considerably diminished.<sup>4</sup> The structural crisis of the 1970s, with rates of interest hardly superior to inflation rates, low dividend payout by corporations, and depressed stock markets, further encroached on the income and wealth of the wealthiest. In the early 1980s, neoliberalism reversed the pattern of comparative decline of these classes. In this sense, neoliberalism was a sweeping success, in particular in the United States. The cost was huge in terms of unemployment and misery around the globe.

In a system where the ownership of the means of production and management are separated, capitalist ownership is expressed through the holding of securities (stock shares, bonds, bills, etc.) and the power of capitalists is largely transferred to their financial institutions (financial holdings, funds, etc.). For these two reasons, the domination of ruling classes possesses a strongly *financial* character. We denote the upper fraction of capitalist owners and their financial institutions, as *finance*.<sup>5</sup> Finance as such must be distinguished from the financial industry: The power and control of finance concern all sectors of the economy, financial as well as nonfinancial. The distinction between financial capital and industrial capital conserves some relevance, but is not central, due to the large integration of economic relations under the aegis of finance in the above definition.

By “imperialism”, we do not mean a particular stage of capitalism, but one of its constant features since its earliest stages (in particular, in the sphere of trade). Imperialism, itself, goes through various stages, but the common, continuous, trait that defines imperialism as such is the economic advantage taken by the most advanced and dominating countries over less developed or vulnerable regions of the world. The violence exerted by imperialist countries is simultaneously the expression—within combinations which would be difficult to disentangle—of straightforward economic constraint, such as the mere opening of commercial frontiers between countries of very different levels of development, and all categories of immediate violence.

Obviously, imperialism does not necessarily imply the outright domination of other countries as in colonialism, one form of imperialism. The crucial factor is to impose, within the dominated countries, a government prone to the development of economic relations favorable to the interest of dominating countries. This can be achieved by all means: collaboration with local ruling classes, subversion, or war. Such domination is compatible with what is called

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<sup>2</sup> In a Marxist framework of analysis, the state is the set of institutions in which the power of ruling classes is expressed and by which it is enforced. Institutions which are not explicitly referred to as part of government also participate to the exercise of this class power. This is, for example, the case of an “independent” central bank.

<sup>3</sup> An analysis of this process in the main capitalist countries can be found in E. Helleiner, 1994.

<sup>4</sup> T. Piketty, E. Saez, 2003; E. Wolff, 1996.

<sup>5</sup> See G. Duménil, D. Lévy, 2004a (Chapter 23).

“democracy<sup>6</sup>” or dictatorship, depending on circumstances. States are, indeed, crucial, both within dominating and dominated countries.

Imperialism is not the fact of a single country, but of a group of countries. The nature of the relationships among these countries defines a central characteristic of imperialism at each of its stages. These countries may confront one another individually or as blocs in the control of regions of the planet. In the international configuration of the early 21<sup>st</sup> century, the relationship of all major capitalist countries to the periphery is imperialist. Rivalry still prevails among imperialist countries but outright confrontation in wars is no longer a central feature, as it was in the past. The position of the United States among other imperialist countries is hegemonic. Thus, imperialism must be understood as a two-tier system: the domination of imperialist countries on other countries, and the domination of the leader of the group on its other members. Actually, a complete hierarchy is at issue, where the more powerful dominates the less powerful.

In spite of globalization, the separation between distinct countries and states remains obviously central. It is true that large corporations are now established within various countries, but they are more “transnational” than actual “multinational” corporations, in the sense that they are still tightly connected to one specific country in terms of ownership and management. Each state is still engaged in the promotion of its national interest, domestically and around the world, notably the United States. The “macroeconomic” features of each country remain quite distinct, as will be recalled below. (The macro constraints in Europe and in the United States are different, with huge consequences.) Ruling classes are still basically established in one particular country, even if they tend to scatter their holdings around the world, in particular within tax paradises.

Overall, the present stage of capitalism can be characterized as *neoliberal* as a result of the new course targeted to the restoration of the income and wealth of capitalist classes, *imperial* due to continued (or increased) pressure on the rest of the world, and *under U.S. hegemony* because of the dominating position of the United States among imperialist countries.

### **3. Pumping income from the rest of the world**

The advantage that the U.S. economy takes on other countries is the product of a whole set of mechanisms. For example, the constant pressures on the prices of raw materials, including energy has often been emphasized. It is also well known that, besides U.S. direct investment abroad (USDIA) by corporations, U.S. agents (households, corporations, pension and mutual funds) hold financial investments (bills, bonds, commercial paper, etc.) on the rest of the world, that is portfolio investment.<sup>7</sup> Other, more roundabout mechanisms are also at work, such as the “brain drain” from other countries which stimulates the capability to innovate and improves the conditions of technical change in the United States. The present section documents some of these mechanisms, those whose effects can be assessed in a rather straightforward manner due to the availability of data series.

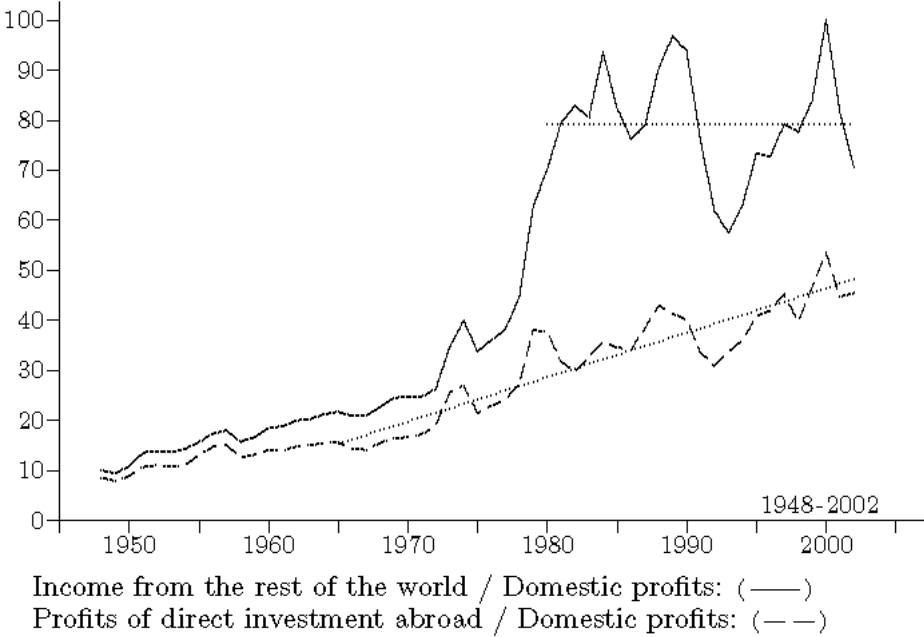
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<sup>6</sup> In a democracy, the various fractions of ruling classes can express their internal contradictions to some extent, and class power rests on social compromises, typically with middle classes. This does not alter the class nature of the state.

<sup>7</sup> According to the Bureau of Economic Analysis: “U.S. direct investment abroad is defined as ownership by a U.S. investor of at least 10 percent of a foreign business. The direct investor is known as a U.S. parent, and the U.S.-owned foreign business is known as a foreign affiliate.” Portfolio investment refers to all foreign investments other than foreign direct investments, such the holding of securities, bank loans, trade credits, time deposits..., with the exception of the holding of currency in cash or accounts.

Consider first the profits made by U.S. corporations. National accounting framework allows for the distinction of profits realized by the affiliates of U.S. transnational corporations. These profits can be either retained abroad or transferred to the parent corporations as interest or dividends. Clearly, this category of profits can be classified as originating from the rest of the world. We denote this first category of profits as profits from USDIA (*USDIA profits*).

Figure 1. Ratios of USDIA profits and total capital income from the rest of the world, to domestic profits (%):



The denominator, domestic profits, is the after-tax profits of U.S. corporations excluding profits from their investment abroad. The numerator is either USDIA profits (the profits of the subsidiaries of transnational U.S. corporations) or total capital flows from any category of investments in the rest of the world by any U.S. agents, that we denote as “capital income”.

Source: NIPA (BEA).

Other profits mostly result from production activity in the United States, but not entirely—in two respects. First, these profits benefit from transfers resulting for the low price of inputs, in particular raw materials.<sup>8</sup> Second, U.S. corporations, on national territory, also cash interest and dividends from portfolio investments in other countries. It is unfortunately impossible to separate this fraction also originating from the rest of the world. We denote this category of profits as non-USDIA profits or *domestic profits* (as they are labelled in NIPA<sup>9</sup>), though they are a mix of profits appropriated domestically and profits from abroad.

Taking the year 2000 as a reference, the comparative size of USDIA profits appears striking. USDIA profits represented 53% of domestic profits. This shows the dramatic importance of this category of income from the rest of the world in the formation of corporate profits in the United States: half as much USDIA profits as other profits. Knowing that a fraction of domestic profits consists of profits appropriated abroad, this gives an idea of the impact of the drain from the rest of the world.

<sup>8</sup> Though one fraction of these benefits reaches customers, which may buy at a lower price.

<sup>9</sup> The *National Income and Product Accounts* of the Bureau of Economic Analysis.

Figure 1 shows the profile of the ratio of USDIA profits to domestic profits since 1952. The figure reveals a steady rise since World War II. This growth reflects gradual globalization, and no break can be observed in the early 1980s. Globalization began before neoliberalism, and was not accelerated with its emergence, rather the contrary as we will contend further on.

Consider now *total financial income* flows from the rest of the world, whatever the channel. These flows include all USDIA profits and all income on portfolio investment by corporations and any other agent such as households and funds. The ratio between total capital income flows to domestic profits was 100% in 2000. This is another, even more striking, expression of the reliance of the remuneration of capital in the United States on flows of income from abroad.

The historical profile of this ratio tells a lot about the relationship between imperialism and neoliberalism. Figure 1 shows the variation of the ratio of total capital income flows to domestic profits since 1948. Beginning at 10%, the ratio rose steadily until the end of the 1970s, reaching 45% in 1978, and then soared up to a plateau of 80% during the neoliberal decades.<sup>10</sup> As can be easily guessed, the rise of interest rates in 1979 was the main cause of this increase, though it was gradually supplemented by larger flows of dividends. Neoliberalism augmented tremendously the flows of financial income from abroad: a central feature of imperialism at the age of neoliberalism.

#### **4. The pattern of hegemony**

Obviously, the relationship between the United States and the rest of the world is reciprocal. U.S. agents also pay financial income to foreign investors, and this only adds to the importance of the preservation and increase of the financial income flows toward the United States. This is, in particular, the case of major capitalist countries such as European countries and Japan.

The investigation in this section is limited to one specific aspect of the foreign investments of the rest of the world: investments that these countries make in the United States. The purpose of this investigation is to stress the differences between the investments made from the rest of the world in the United States and U.S. investments in the rest of the world. A strong asymmetry is apparent to the advantage of the United States. In this respect, it appears that this country, not only drains large flows of income from the rest of the world, as documented in the previous section, but does it very efficiently. This is an expression of its hegemonic position.

A first difference between the United States and other countries is the ratio of direct investment to other financial investment. This ratio is significantly larger for the United States than for the rest of the world, respectively about 50% and 20% (averages 1952-2002): Since World War II, the United States remained consistently a country of large direct investment abroad.

A second difference concerns returns on investments. Whatever the types of foreign investments, the United States obtains returns on the rest of the world quite larger than the

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<sup>10</sup> The series of domestic profits fluctuates with the business cycle. (They grow rapidly when the activity is strong in the United States.) For this reason, the series of domestic profits has been smoothened to some extent. Consequently, the fluctuations apparent in the variable, in figure 1, mirror that of interest rates. The 100% in 2000 was the highest percentage reached.

rates made by foreigners when they invest in the United States. (Recall that we do not discuss the returns other countries make when they invest in third countries.)

Figure 2 shows the real apparent rates of return on the U.S. holdings abroad and on the foreign holdings on the United States. By “real apparent rates of return”, we mean the ratio of the flows of income to the corresponding stocks of holdings, with a correction for the devaluation of debt by inflation. The following is noteworthy:

- Consider first the rate of return on the U.S. holdings abroad. A first observation is that this rate, corrected for the devaluation of debt by inflation, is substantial, an average of about 7.8% over the entire period. A second observation is the leap in the early 1980s. The average rates for the two subperiods, before and after 1980 are 6.2% and 9.3%.

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Figure 2: Apparent rates of return on the U.S. holdings abroad and on the foreign holdings on the United States (%)



The variables are corrected for the devaluation of debts by inflation<sup>11</sup>.

Source: International Transactions Accounts (BEA); NIPA (BEA); Flow of Funds (Federal Reserve).

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- A similar stepwise pattern is apparent concerning the rate of return on the foreign holdings on the United States, though this rate of return declined more during the 1990s. But the most striking observation is the gap between the two rates. Still distinguishing the same two subperiods, the percentages amount respectively to 1.8% and 4.5% (to be compared to the 6.2% and 9.3% above), that is an average difference of about 4.7% with U.S. rates.
- Note that the gap between the two sets of returns did not rise with neoliberalism, but appears as a constant feature of U.S. hegemony. Conversely, the rise of both sets of returns after 1980 is consistent with the features of the neoliberal decades: large real interest rates and flows of dividends.

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<sup>11</sup> This correction is not applied to direct investment.

In the analysis of returns, it is interesting to distinguish between direct and portfolio investments, the main two components of the series in figure 2. Again, there is a strong asymmetry in the relationship between the U.S. economy and the rest of the world:

- The returns on portfolio investments, still after correction for the devaluation of the debt by inflation, were very low prior to neoliberalism, both for U.S. and foreign investments, averaging, respectively, at 1.5% and 0.9% for the period 1960-1980. They both rose suddenly up to, respectively, 9.7% and 6.1% (averages for 1981-1985). But the returns on this category of investments declined gradually, though less for the United States. The average difference in returns amounted to 4.4% between 1981 and 2002.
- Prior to neoliberalism, the apparent rate of return on USDIA were equal to 9.9% (average 1960-1980). The return of foreigners on their direct investments in the United States (FDIUS) was somehow inferior: 6.9% for the same years. This latter rate collapsed to an average of 2.8% after 1980 (up to 2002), while the returns on USDIA were maintained. An average gap of 6.4% (average for 1981-2002) was opened on foreign investment.<sup>12</sup>

The United States is at the center of a *system* in which capital is simultaneously exported and imported, to and from the rest of the world. A central feature of U.S. imperialism is that, in Marx's terminology, it largely acts as an international “active capitalist”, as opposed to a lender<sup>13</sup>, on behalf of the holders of capital from other countries.<sup>14</sup> Symmetrically, the capitalists of the rest of the world, to a large extent, act as *rentier capitalists* directly vis-à-vis the U.S. economy. Agents of other countries may want to protect their holdings from national risks or constraints. A typical illustration of this latter motive is the holdings of U.S. securities by the wealthy class of oil producing countries or Latin America, or the investment of currency reserves by foreign central banks in U.S. treasury bills, thus behaving as “rentier countries”. Such investments are seen as risk free and liquid, but are remunerated at comparatively low rates.

## 5. The revenge of outflows

From the viewpoint of the previous two sections, the image of the United States in its relationship to the rest of the world is that of a country enjoying a large capability to drain foreign income flows. When foreigners invest in the United States, they appear as less efficient investors. This section discusses, not the returns on investments as above, but the total flows of financial income from the rest of the world to the United States and reciprocally. Then, the stocks of holdings are considered. This analysis points to a gradually deteriorating international situation of the United States.

Figure 1 already illustrated the size of inflows and their sharp increase within neoliberalism, by comparing these flows to domestic profits of U.S. corporations. Figure 3 provides the same information, though inflows are now compared to the total product of the United States (Net

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<sup>12</sup> R.J. Mataloni, 2000. At the beginning of the article, one can find the following statement : “A longstanding question about foreign-owned U.S. companies is why their rates of return have been consistently below those of other U.S. companies. Previous research by the Bureau of Economic Analysis (BEA) and others has examined this issue.”

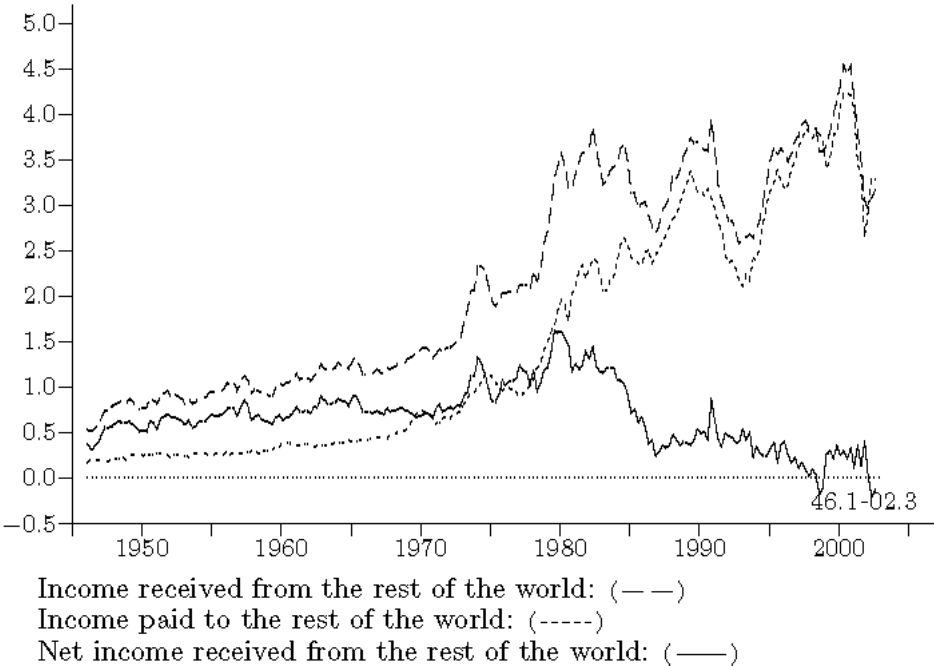
<sup>13</sup> Marx used to consider shareholders jointly with lenders.

<sup>14</sup> It would be interesting to assess the importance of this mechanism in earlier stages of imperialism.

Domestic Product, NDP). The figure shows that inflows amounted to more than 4% of NDP in 2000. This might be judged less impressive than the picture in figure 1. One should, however, keep in mind that profits represent only a “small” fraction of the total product of the country.<sup>15</sup> Figure 3 also shows the growing percentage of outflows in NDP.

Three subperiods can be distinguished. Between 1946 and 1972, the two percentages rose rather steadily from values inferior to 0.5% to 1.3% in 1972 for inflows, and 0.6% for outflows. The gap was slowly widening. The years 1973-1979 appear as an intermediary period with a sharper rise up to 2.7% for inflows and only 1.5% for outflows, that is a further widening of the gap. This rise of inflows is, however, dwarfed by the heights reached during the following decades. During the neoliberal decades, after the sudden rise of interest rates in 1979, the percentage of inflows to NDP surged to a plateau of more than 3%, around which it began to fluctuate (as already evident in figure 1). Concerning outflows, the third period, 1980-2002, cannot be described as a plateau, rather a period of continuing growth: The outflow of financial income went rising, representing a gradually larger fraction of NDP (reaching a maximum of 4.0% in 2000).

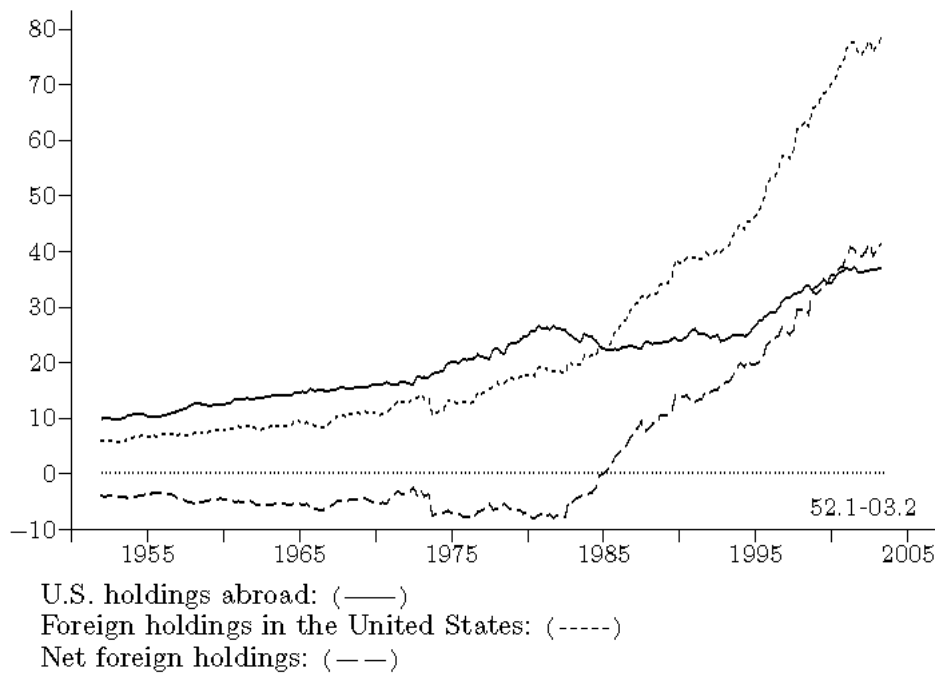
Figure 3: Ratio to U.S. NDP of income received by the United States (inflows) and paid by the United States to the rest of the world (outflows) (%)



A positive sign for the difference means that the United States receives more than it pays to the rest of the world. Source: NIPA (BEA).

Figure 4. Ratios to U.S. NDP of the holdings of the rest of the world on the , and of the on the rest of the world (%)

<sup>15</sup> In 2000, domestic after-tax corporate profits amounted to 7.1% of the Net Product of U.S. corporations. And this product represented, in turn, only 61.6% of the NDP.



A positive sign for the difference means that foreigners hold more holdings on the United States than the United States on other countries.

Source: NIPA (BEA); Flow of Funds (Federal Reserve)

The third line in figure 3 depicts the profile of the difference between inflows and outflows, that is the net inflows to the United States. These net flows rose between 1973 and 1980. Obviously, the main new development was the interruption of this upward trend in 1980, and the assertion of the downward trend from 1.3%, to 0%, or even negative values, from 2002 onward. Since 2002, in some quarters, the United States paid more income to foreigners than it received!

The explanation of this decline is obviously the deteriorating external position of the U.S. economy, to which we now turn. Figure 4 shows the profile of the stock of total holdings by U.S. agents on the rest of the world, as a percentage of NDP. Between 1952 and 1979, these holdings represented approximately 10% of NDP. Then, the percentage fluctuated around 18%, up to the second half of the 1990s. Between 1995 and the end of 2002, the ratio surged from 18% to about 30%, signalling a new wave of financial investment abroad. The second curve describes the movement of foreign holdings on the United States. In 1952, this percentage, amounting to 5% of NDP, was inferior to that of the holdings held by the United States, but it grew consistently. In 1985, the two percentages were equal to 20%. Finally, during the neoliberal decades, the holdings of the rest of the world on the United States rose steadily, reaching 70% of NDP in 2003.

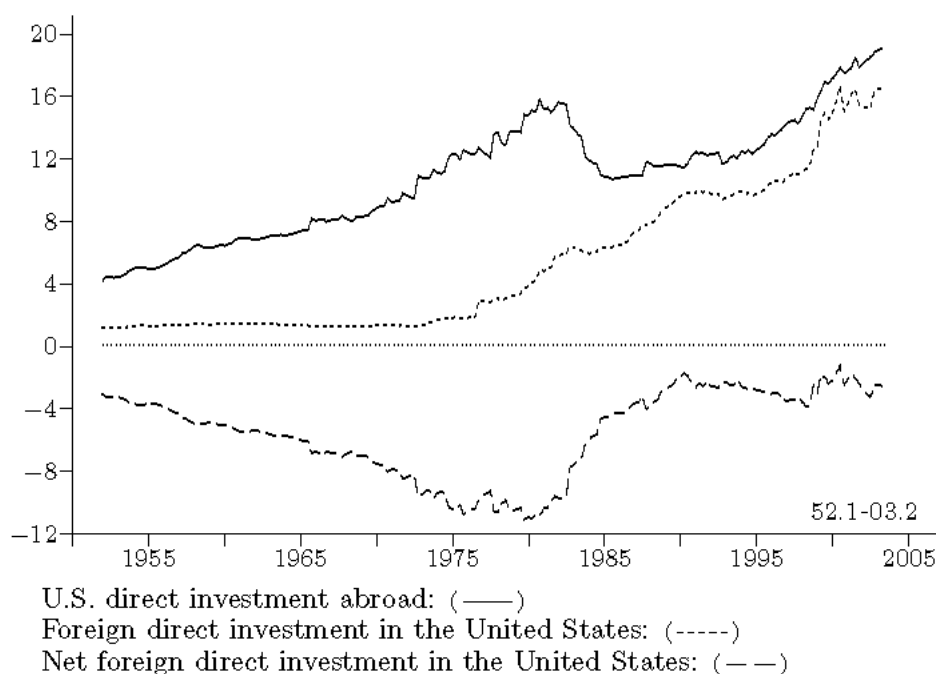
The difference between the two percentages, that is the position (net holdings) of the rest of the world on the United States is also shown in figure 4. This position remained negative until 1985, meaning that the holdings of the United States were larger than those of the rest of the world on the United States. But, beginning in the early 1980s, the external U.S. position began to deteriorate. At the beginning of 2003, the foreign position reached 36% of the NDP of this country. Although the holdings include other components, such as stock share, the bulk of the deterioration during the neoliberal decades can be imputed to a growing *debt* of the United States toward the rest of the world.

Within the stocks of total holdings in figure 4, it is interesting to single out the stocks of FDIUS and of USDIA (figure 5). The first observation is that direct investment only represents a limited fraction of total holdings, as already mentioned. (The scales on the vertical axes in figures 5 and 4 are quite distinct.) The overall trends of FDIUS and of USDIA are clearly upward. However, the extension of USDIA was considerably slowed down in the early 1980s, as a share of NDP, as shown in the figure, as well as in absolute value (in constant dollars). Neoliberalism did not accelerate globalization as far as USDIA is concerned, quite the contrary. Conversely, the rest of the world accelerated considerably its direct investment in the U.S. from 1972 onward, and the two flows became practically equal at the end of the 1980s. As a result, the net stock of USDIA, which increased up to 11% of U.S. NDP, from 1952 to 1980, suddenly declined, as shown in the third line in figure 5 and remains more or less constant at this level since 1990.

The catching-up of foreign countries concerning direct investment was paralleled by the fall in returns described in section 4. Consequently, the income that the United States drew from foreign their investment abroad remained consistently larger than the income paid to the rest of the world for such investments in the United States (a ratio of about 4 or 5 since World War II). This is a structural characteristic of the U.S. economy, not a specific feature of neoliberalism.

Globally, for all types of investment, a comparison of figures 3 and 4 reveals that the net flow of financial income with the rest of the world was “only” null in 2002, instead of being negative, while the net position of the United States toward other countries was strongly negative. This is only possible as a result of the comparatively high rates of return on the holdings of the United States documented in figure 2.

Figure 5. Ratios to U.S. NDP of USDIA and of FDIUS (%)



Source: NIPA (BEA); Flow of Funds (Federal Reserve).

These observations point to central mechanisms in the economics of contemporary U.S. imperialism. The United States was very efficient, during these decades, in pumping income from the rest of the world. In the absence of the deterioration of the position of the United States, that is assuming, for example, a net position consistently equal to zero, and because of the difference in returns on financial U.S. and foreign investments, the drain from other countries would have been huge and dramatically increased by neoliberal globalization (which implies the rise of both the stocks of holdings of U.S. and foreign agents in comparison to NDP). However, the United States became a net importer of capital. The difference in returns on financial investments is crucial. If the United States paid to foreigners the same rates it makes the net flow of financial income toward the rest of the world would be approximately equal to total U.S. domestic profits after taxes in 2003! Needless to say that such a situation would never had been reached.

## 6. A neoliberal-neoimperial consumption spree

This section discusses the causes of the gradual deterioration of the U.S. position and the impact of foreign investment on consumption and accumulation in the United States.

Figure 6 shows the profile of the saving rate for the total U.S. economy. Savings, the numerator of the ratio, refer here to the excess of total income on all expenses in goods and services, other than fixed capital investment in all firms (private domestic fixed nonresidential investment). The denominator is the NDP. One can observe that, since World War II up to the beginning of the 1980s, this rate used to fluctuate around an average of 4.5% (1952-1979). Then, it suddenly fell to about 1% and less during recessions. This stands out as a thorough and sudden metamorphosis of the functioning of the U.S. economy during the neoliberal decades. The figure also shows the rate of fixed investment. This rate diminished less during the neoliberal decades than the rate of savings, but the decline is significant, from an average of 4.1%, from 1952 to 1979, to an average of 3.5% after. The difference between the savings and investment is equal to the balance of current accounts and to the variation of the net position of the United States on the rest of the world. These are accounting identities<sup>16</sup>.

The declining saving rate was the combined effect of the behavior of households and government. Figure 7 presents the rates of saving of households and government. The contrast is sharp between the decades prior to neoliberalism and the two last decades of the century. From 1952 to 1982, the saving rate of households grew from 6% to 8%. Then, it began its decline to about 2% in the early 2000s.<sup>17</sup> Since World War II, the savings of the government remained negative (a deficit), with little exception. But the deficit increased strongly during the first half of the 1980s, to reach 6% of NDP. This explains the rapid decline of the saving

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<sup>16</sup> GDP is the value of the total product in the United States. It is the sum of consumption, physical investment, and exports, minus imports. GNP is equal to GDP, plus the net flow of income from the rest of the world, that is total income. One has:

$$GNP = \text{consumption} + \text{physical investment (fixed investment and the variation of inventories)} + \text{exports} - \text{imports} + \text{income from the rest of the world} - \text{income paid to the rest of the world}$$

Savings are the difference between total income and consumption:

$$\text{Savings} = GNP - \text{consumption} = \text{physical investment} + \text{exports} - \text{imports} + \text{income from the rest of the world} - \text{income paid to the rest of the world}$$

Hence (abstracting from unilateral transfers, such as aid):

$$\text{Savings} = \text{physical investment} + \text{balance of current accounts}$$

<sup>17</sup> It is difficult to separate the behavior of households as such and as self-employed persons (in the noncorporate sector). A similar profile is, however, observed when considering households and the noncorporate sector jointly.

rate in the early 1980s observed in figure 6. This deficit was the combined effect of the rise in real interest rates, large military spending (Reagan's "star war"), declining tax rates, and slow growth (that is weak revenues). This trend was dramatically reversed during the second half of the 1990s, during the boom, up to the recession.

The consistent decline of the saving rate of households since the mid-1980s is puzzling. A study from the Federal Reserve shows that the propensity to save only diminished for households whose income belongs to the group of the 20% larger incomes.<sup>18</sup> Thus, the income bracket, whose income increased the most with neoliberalism, began to spend to rising degrees. This demand was actually directed toward consumption, even more than housing. The increasing propensity to spend on the part of the richest fraction of households appears as the main, continuous, cause of the decline of U.S. saving rates and of the corresponding external deficits.

If the domination of the United States did not exist, such a consumption spree would have been impossible or have straightforwardly led to the relative decline of this country due to low accumulation rates and a falling dollar. The United States enjoys, however, a quite specific macro situation in comparison to other countries. It is not constrained by its balance of current accounts. Foreigners accept payments in dollars and conserve these dollars that they invest in the U.S. economy, without being concerned by the growing imbalance of foreign accounts. The exchange rate of the dollar remained unaffected up to the beginning of 2002. (The dollar was actually rising against other currencies). Since a large share of demand stimulates imports and puts a pressure on domestic supply, its inflationary potential is diminished. U.S. monetary policy does not need to be too restrictive, in sharp opposition to the situation prevailing in Europe.

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Figure 6. Ratios of net savings and net fixed investment to NDP (%): total economy

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<sup>18</sup> D. Maki, M. Palumbo, 2001.



Fixed investment is that of enterprises (private domestic fixed nonresidential investment), and savings the excess of domestic income over all other expenses.  
Source: NIPA (BEA); Flow of Funds (Federal Reserve).

Figure 7. Ratios of savings to NDP (%): households and government

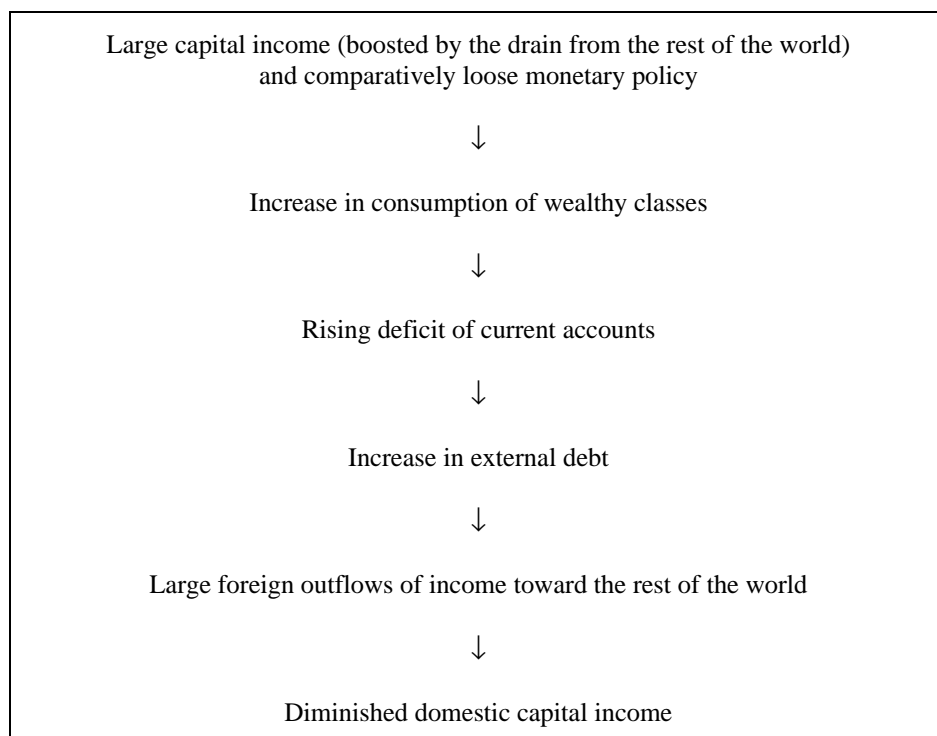


For the government, savings are equal to the current surplus or deficit.  
Source: NIPA (BEA).

Assuming that foreigners go on accepting such payments, the mechanism which allows for the perpetuation of these trends— that foreigners use the purchasing power in dollars that they derive from U.S. deficits to invest in this country—is also contradictory in the long run. The problem is that such investment must be remunerated (though actually at comparatively low rates). Thus, an outflow of financial income is created toward the rest of the world, meaning a gradual drain on overall income of the holders of capital in the United States. This is the price paid for extraordinary consumption.

## Conclusion

The mechanisms described in the previous section account for the contradictory character of U.S. imperialism at the age of neoliberalism, a long-term process:



If this chain were indefinitely prolonged, it would gradually deprive the capitalist class in the United States of its income and wealth, a logical outcome for a class which does not save. The power of the country would, obviously, be eroded. This is not a likely future for U.S. capitalism, and this is equivalent to saying that a new trajectory will be pursued.

Recall that, in the above chain, neoliberalism is the problem, not the imperialist capability of the country which remain unscathed. For this reason, we contend that, independently of more spectacular developments, the U.S. economy and society will have to enter a new phase, a new stage of neoliberalism or beyond neoliberalism. One must also keep in mind that neoliberalism and imperialism being two distinct phenomena, imperialism can, indeed, survive neoliberalism. (The United States was already imperialist during the so-called Keynesian compromise.)

The central element in this new course to be found is obviously the reduction of the expenses of rich households, the redirection of demand toward domestic markets, and larger accumulation rates financed domestically. Such a path is certainly possible, though it might be difficult to reach because of the multiple contradictory objectives to be pursued simultaneously:

- Keeping profits within corporations would be a straightforward manner of cutting the income of rich households and financing investment. It means lower interest rates and lesser dividend payout. Thus, it contradicts the fundamental neoliberal objective of restoring capitalism in its pre-World War II patterns.
- A falling dollar is a tool toward the correction of external trade balances, but it contradicts U.S. financial domination and its capability to act as efficient imperialist power. Trade barriers represent another possible device but, because of obvious retaliation from foreigners, it is also at odd with the pattern of global domination.

In the movement toward such a trajectory, the macroeconomy will remain a constant constraint. The stimulation of the spendings of households is a central element of the preservation of the economic activity—the avoidance of recessions or more dramatic crises. This is where crises are relevant, as constant threats and impediments in the pursuit of a structural adjustment (rather than as the introduction to the permanently pending doomsday).

The outcome will be determined by the interplay of political forces, domestically and internationally. Domestically, the “neoliberal compromise” with upper middle classes which benefited from capital income flows, notably through their pension funds, could be broken, most likely adding to the pressure on popular classes. In this case, the pursuit of the historical endeavour of ruling classes in neoliberalism could only be perpetuated by way of a growing distance taken from traditional “democratic” rules—unless a radical change away from neoliberalism can be implemented, and this is what “struggle” means. Internationally, a similar confrontation is under way, in which one can identify growing popular and government initiatives toward resistance, though still quite moderately. A major foreseeable component will be the attempt to increase the pressure on the rest of the world .<sup>19</sup>

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<sup>19</sup> We abstract from other mechanisms such as the new trends of technology and profitability which lie beyond the scope of this study, but might play an important role. Notably the pursuit or interruption of the rising trends of the profit rate since the mid-1980s will be crucial.

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