

Post-Hegemonic U.S. Economic Hegemony: Minskian and Kaleckian Dynamics in the Neoliberal Era

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[European] capital markets cannot equal that of the U.S. in breadth, liquidity, and competitiveness in the foreseeable future. – Despres, Kindleberger, and Salant (1966, p. 528)

It is tempting to look at the market as an impartial arbiter .. But balancing the requirements of a stable international system against the desirability of retaining freedom of action for national policy, a number of countries, including the U.S., opted for the latter. -- Paul Volcker (1979, p. 4)

1. Introduction

Steady U.S. macroeconomic growth has been the one constant during the tumultuous 1990s, a decade that saw Japan's stagnation, Mexico's peso crisis, investment collapses and financial meltdown in East Asia, and the Brazilian and Russian currency crises of 1998-1999. How has the U.S. macroeconomy managed to grow in an era of global crisis? Since the 1980s, U.S. business cycles have been longer and more stable than in the past.¹ But this observation only sharpens the question: What is different about the U.S. business cycle, and why has it changed?

This essay uses ideas developed by Hyman Minsky and Michael Kalecki to answer these questions. Both focused on the sources of growth and stagnation in advanced capitalist economies. The ideas of each are incomplete: Kalecki decided to deemphasize financial factors in his cyclical model (Dymski, 1996a), while Minsky ignored labor in his financial-instability framework. But these are complementary silences; indeed, some economists (including Crotty 1990, Itoh and Lapavistas 1999, and Skott 1989) have combined these authors' insights in theoretical models incorporating financial and labor dynamics.

This essay, by contrast, takes an empirical approach. It shows first that Minsky and Kalecki explain key aspects of post-War U.S. business cycles. However, cyclical behavior has changed since 1980 in ways not anticipated fully by either theorist. Nonetheless, their insights remain germane if they are modified to encompass sustained global imbalances. A nation's cross-border imbalances are typically contained, and net out over time. The U.S. situation in the last twenty years is different: it has gradually built up a trade deficit and capital-account surplus of unprecedented size. This asymmetry has become a fundamental feature of the global economic structure. It rests on another imbalance: the global demand for the dollar. This in turn derives from the U.S.'s hegemonic role in the global political-economic system since World War II.

Hegemony here means a nation's ability to determine the terms and conditions on which cross-border exchanges of goods, services, and financial assets are made. A global hegemon can dictate these terms and conditions globally. A nation that achieves economic

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¹ Chauvet and Potter (2001) demonstrate these points using time-series techniques on aggregate data.

hegemony over a given sphere must stand ready to stabilize financial flows in that sphere when these become disorganized. A hegemon is not responsible for maintaining prosperity in its sphere of influence; but to continue as hegemon it must at least prevent other nations from replacing it—and this depends largely on military power.

Until 1971, the U.S. enjoyed global economic hegemony because it underwrote the Bretton Woods system of fixed exchange rates. It was hegemonic in the sense defined by Kindleberger (1973, 1974)—it underwrote the system of fixed exchange rates, and operated as a lender of last resort within that system. After 1971, the U.S. has been a global economic hegemon in the sense defined above, though not in Kindleberger’s sense: it has been a post-hegemonic hegemon. This hegemony has rested on the U.S. economy’s importance in global trade, the U.S. dollar’s role as a reserve currency and unit of global exchange, and the dominance of U.S. markets and institutions in global finance. This recent period, an era of great instability and recurrent crashes, has seen a step-by-step global deregulation of financial markets and a relaxation of controls on cross-border capital movements. In this period, global growth has been slower and more unstable; but U.S. military hegemony has, if anything, become stronger. With fewer restrictions on cross-border capital movements, a slower pace of global economic growth, and continued U.S. military power, the U.S. has increasingly been a “safe harbor” magnet for globally mobile wealth. These changes in the character of U.S. global economic hegemony are root cause of changes in the character and timing of U.S. cyclical fluctuations.

2. The Cyclical Models of Minsky and Kalecki

For Hyman Minsky (1975), advanced capitalist economies cyclically variable due to financial instability. The degree of financial fragility depends on three factors: the terms and conditions of financing; the riskiness of the projects being financed; and the balance-sheet obligations of borrower units. In the course of the cycle, more aggressive financing is arranged, increasing the demand for both aggregate output and for financial assets; but this comes at the cost of more financial fragility, since financial commitments are rising relative to income flows. A crisis arises when a significant number of borrowers cannot meet repayment demands, so that cash-flow disruptions spread to other units’ balance sheets and, eventually, asset prices systematically collapse. A debt-deflation cycle is unleashed.

Kalecki’s writings also focus on fluctuations in capitalist economies. Here we focus on Kalecki’s “The Political Economy of Full Employment” (1942, reprinted in Kalecki (1971)). He argues that sustained full employment is impossible in advanced capitalist societies with democratic governance due to a political business cycle. When unemployment falls too low, workers’ effort in production will decline, reducing the profit rate. Capital accumulation is thus threatened when workers unite in social democratic parties that demand full employment. When full employment nears, capitalists will respond by reducing investment, initiating a downturn that restores profitability on a per-unit basis. Paralleling this upper limit on capital accumulation is a lower limit. This limit arises for two reasons: first, while high unemployment assures high labor effort and keeps wages low, idle capacity reduces the overall profit rate; second, high unemployment leads to political agitation by the working class and thus to government counter-cyclical action.

3. Big Government, Small Government, and Neoliberal Capitalism

Minsky argues that there was a fundamental transformation in the dynamics of capitalism because of Depression-era policy reforms. In the pre-Depression era of “small-

government capitalism,” recurrent financial instability imposed cyclical discipline on wealth-owning units in the economy. The Depression brought on the “big government” era: extensive new financial regulations, a clearly defined ‘lender of last resort’ role for the Federal Reserve, and the use of government spending to stabilize aggregate demand.

Cyclical dynamics were fundamentally different in the big government era. Federal Reserve interventions and counter-cyclical government expenditures substituted procyclical inflationary bias for deflationary pressure in downturns. The high rates of unemployment and of business and bank failure in the downturn were blocked. Chronic price inflation was not the only price of “stabilizing the unstable economy” (Minsky 1986); another was a build-up of debt/income ratios, since balance sheets are no longer as thoroughly “cleansed” through widespread business failures in downturns as they were during the small-government period.

Dymski and Pollin (1994) investigated the empirical basis for Minsky’s “small” and “big” government eras, using annual U.S. data for the period 1887-1988 for various aggregate time-series. We grouped these variables by cycle based on NBER business-cycle turning-point data. For any variable, the year preceding a downturn was termed “year 0,” the subsequent year was termed “year 1,” and so on. Cyclical trajectories were then computed, with World War periods (1913-18 and 1937-51) discarded. According to several statistical tests, these cyclical patterns did indeed fall into “small government” and “big government” groupings – but only until the 1980s. The 1980s were different: as in the “small” government era, the real interest rate and business and bank failure rates were extraordinarily high; but as in the big-government era, a high rate of price inflation was clearly present.

So Dymski and Pollin concluded with an unsolved puzzle: were the 1980s different because of contingencies such as 1970s energy shocks and aggressive monetary policy, did they represent a return to small-government patterns, or was a new cyclical pattern emerging? Data for two post-1970s cycles are now available. They suggest that the U.S. economy entered a new phase in the 1980s. Table 1 shows mean values for four periods: the small government era, 1887-1936; the big government era, 1951-1979; the 1980s; and the 1990s.

Table 1 indicates that real federal outlays were trendless in the small-government era, and then had systematically positive growth in the big-government era. Average real GDP growth and price inflation were faster in the big-government era than in the small-government era. The real interest rate was lower in the big-government era, as were bank and business failure rates. Averages for unemployment rate and productivity growth were little different; but the cyclical volatility of GDP growth, the unemployment rate, and the real interest rate was dampened in the big-government era.

Systematic differences emerge between the big-government era and the 1980s and 1990s. Real federal outlays grew rapidly in the 1980s before turning negative in the 1990s. The pace of real GDP growth slowed progressively over these two decades. Average productivity growth slowed markedly in the 1980s before recovering somewhat in the 1990s. The average for the real interest rate climbs substantially in the 1980s and remains at historically high levels in the 1990s. The unemployment rate shows a similar pattern: a rapid climb in the 1980s, followed by slight decline – to an average higher than the big-government level – in the 1990s. This same broad pattern holds for the business and bank failure rates. These variables climb astronomically in the 1980s before falling somewhat in the 1990s to levels well above the big-government average. Stock prices, as measured by the Standard and Poor 500 average, grew much faster in real terms in the small-government era than in the big-government era; and this growth rate accelerated steadily in the 1980s and 1990s.

*Table 1: Average Levels of Aggregate Variables,
Small and Big-Government and Neoliberal Eras*

Variable	Small-govern- ment (1887-31)	Big-govern- ment (1952-79)	1981- 1989	1990- 2000
Growth in real federal outlays (Pct) (1) (a)	-0.1	1.3	3.8	-1.0
Real GDP growth (Pct) (1) (a)	2.9	3.6	3.4	3.1
Real interest rate (2) (b)	3.5	1.2	4.7	3.0
Change in implicit GDP deflator (Pct) (1) (a)	1.6	3.8	4.5	2.5
Unemployment rate (Pct) (2) (a)	5.0	5.2	7.3	5.6
Productivity growth (Pct) (1) (a)	1.6	1.8	1.5	1.7
Growth in real stock prices (S&P 500) (Pct) (3)(c)	5.7	2.6	7.9	12.4
Bank failure rate (1) (d)	160.0	4.2	83.0	42.7
Business failure rate (1) (c)	99.0	45.1	100.1	88.3
Change in real before-tax profits (Pct) (4) (a)	NA	3.3	1.2	5.2
Change in real net interest income (Pct) (4) (a)	NA	10.2	6.6	-0.5
Real consumer debt per person (\$96) (4) (c)	NA	\$890	\$2,179	\$3,432
Real mortgage debt per person (\$96) (4) (c)	NA	\$2,879	\$4,266	\$5,115

NOTE: Bank and business failure rates are measured per 10,000 establishments. Data series extend over different periods: those tagged (1) are measured for the period 1887-2000; (2), 1891-2000; (3), 1900-2000; (4), 1952-2000. The years 1913-18 are excluded from the small-government era.

SOURCES: (a) Bureau of Economic Analysis, Department of Commerce; (b) Federal Reserve Board; (c) Economic Report of the President, February 2001; (d) Federal Deposit Insurance Corporation.

Table 1 clarifies several points. First, with the exception of price inflation and real government spending growth, the averages for the 1980s and 1990s are quite similar. Second, these averages are clearly distinct from those for either the small- or the big-government era. The 1980s and 1990s resemble the big-government era in that GDP growth has been relatively robust and far less volatile than in the small-government period. But like the small-government era, the real interest rate and business and bank failure rates are high.

The U.S. economy has not returned to the big-government pattern after the disruptions of the 1980s; nor has it reverted to the small-government pattern. Instead it appears to be in a new phase, which we term the neoliberal era. The defining characteristics of this era are the systematic deregulation of financial intermediation and financial flows, relatively open trade flows, and a shift in government's role. To borrow Kregel's (1998) terminology, the "big government" role of counter-cyclical spending has largely disappeared; replacing it are government's "big bank" mechanisms for stabilizing financial (and some macroeconomic) variables. The Golden Age "capital-labor accord" is abrogated, and labor's rights and wages are challenged. Government, in turn, no longer seeks to provide security for individuals, and instead focuses on insuring that the rules of the game are fair (Guitián 1998). Government expenditures for the unemployed, the infirm, and the elderly are increasingly restricted.

We now compare cyclical dynamics during the small-government, big-government, and neoliberal eras.² Figure 1 contrasts the cyclical patterns of post-peak growth in real GDP in these three periods. Here, the average GDP decline in the downturn is substantially larger

² Due to federal data redefinitions, these figures differ slightly from those in Dymski and Pollin (1994).

in the small- than big-government eras. The big government puts a higher “floor” under real GDP growth; but the “ceiling” growth rate for real GDP is lower than in the small-government period. The 1980s and 1990s data show a more rapid recovery from downturn, but also more instability than in earlier years. The 1980s boom resulted in a much higher peak growth rate than was seen either in the big-government average or in the 1990s.³ Figure 2 shows the cyclical dynamics of the unemployment rate. The unemployment rate achieves a lower average level at the business-cycle peak in the small-government era than it does subsequently, and conversely climbs to a much higher peak level in the wake of the downturn. Again the fluctuation of the unemployment rate is moderated in the big-government era. The 1980s marks a sharp break with the big-government pattern: the unemployment rate climbs quickly to a high level – and even when moderating does not fall to big-government levels. The unemployment rate in 1990s cycle is again higher than big-government levels until the later years of the cycle; it also displays less variability over the cycle than in the small- or big-government periods.

The distinct character of the three eras is clearly seen in Figure 3, which portrays the cyclical pattern of price movements. The sustained deflationary momentum of the small-government era is clearly evident. The contrast between small- and big-government dynamics could not be greater. In the big-government era, inflationary pressure rises in the downturn as the monetary authority intervenes and counter-cyclical spending is triggered. The authorities exploit the inflation/stability trade-off in favor of stability. The 1980s and 1990s business cycles are utterly different. In each case, inflationary pressure is highest at the initial business-cycle peak. This pressure then moderates steadily through the downturn and renewal of expansion. Figure 4 shows that real interest rates follow the same distinctive patterns. In the small-government era, the real interest rate rises substantially and for a prolonged period after the peak – a pattern related to that era’s deflationary bias. By contrast, real interest rates fall after the peak in the big-government era due to Fed intervention. And once again the 1980s and 1990s have a new pattern: a constant real interest rate without cyclical momentum.

In sum, the U.S. economy has behaved differently after the 1970s. Real interest rates and price inflation no longer vary systematically over the cycle; instead their behavior is relatively smooth over time, suggesting that these variables are responding to forces other than the cyclical momentum of the U.S. economy itself. The behavior of the unemployment rate over the cycle has also shifted: it has in the 1980s and 1990s drifted downward, not upward, in the latter stages of the expansion. All of these new forces cumulatively extend the length of recoveries and ease or offset pressures that would otherwise trigger a downturn. This does not mean the U.S. economy is a pain-free zone. Bank and business failure rates are much higher than in the big-government era (Table 1).

4. Kalecki’s Political Business Cycle in the Three Eras

Kalecki’s political business-cycle model suggests that the unemployment rate should behave differently once workers have political representation and the big-government era begins. It should not fall as low in expansions, due to problems with labor-extraction under welfare-state full employment, nor should it rise as high in downturns, due to the political power of labor. Table 2 provides evidence supporting this conjecture through the end of the 1970s. The 1990s cycle also shows this moderate pattern of fluctuation; but the 1980 pattern doesn’t fit: unemployment rates are too high both at the top and bottom of the cycle. Table 1

³ Lippit (1997), among others, argues that a new social structure of accumulation—that is, an institutional structure capable of delivering high, stable economic growth—has been established after 1980.

shows that the average growth of profits dipped in the 1980s and then recovered in the 1990s. Table 2 shows that the cyclical volatility of profits increased in the transition from the big-government era to the 1980s; but it decreased in the 1990s, with a higher profit ‘floor.’

Table 2: Unemployment Rates and Gaps during the Small-Government, Big-Government, and Neoliberal Eras

Periods	Average unemployment rates over the business cycle:		Average growth rate of real profits over the cycle	
	<u>Lowest</u>	<u>Highest</u>	<u>Lowest</u>	<u>Highest</u>
Small-Government	2.4	8.7	NA	NA
Big-Government	4.5	6.1	-15.2	18.8
1983-90	5.3	9.7	-26.8	17.4
1992-98	4.2	7.4	-8.6	12.7

Periods	Gap between Expansion-Year Unemployment Rates and:		
	"Natural" Unemployment Rate	5.15 Percent	4 Percent
Small-Government	-0.07	-0.91	0.24
Big-Government	-1.14	-0.29	0.86
1983-90	0.55	1.59	2.74
1992-98	0.09	0.66	1.81

NOTE: Figures for the "natural" unemployment rate are taken from Gordon (2000). Figures for unemployment gaps are calculated only for years with positive GDP growth.

SOURCE: See Table 1.

The bottom of Table 2 explores the cyclical behavior of unemployment. The observed unemployment rate in expansion years was just below the “natural” unemployment rate calculated in Gordon (2000) in the small-government era, but then substantially below it during big-government era expansions. This conclusion follows in part because Gordon’s natural rate drifts upward over time: Gordon’s “natural” rate drifts upward secularly from 4.2 percent in the late 1800s to 6.5 percent in 1980 before falling back to 5.3 percent by 1998. In effect, Gordon’s “natural” unemployment rate with secular drift builds in Kalecki’s full-employment/labor-extraction model, as it suggests that a higher natural rate obtains. The neoliberal era breaks sharply from this scenario. The unemployment rate has risen dramatically higher, in contrast to earlier eras. More notable is that performance in both the 1980s and 1990s deteriorates considerably, peaking far below either benchmark. In sum, while Kalecki’s profit constraint was reinforced in the 1990s, after softening in the 1980s, Kalecki’s labor constraint has broken down in the neoliberal era—the political penalty for high unemployment rates has apparently eased.

5. Global Hegemony and the U.S. Business Cycle

What set of forces could simultaneously transform Minskian financial cycles, generating a higher level of microeconomic pain (higher business and bank failure rates) and a longer period of macroeconomic expansion, and also soften Kaleckian labor constraints? United States’ global hegemony may be this missing factor.

Today, the U.S. economy has unassailable global power. As noted above, this global power emanates both from the military/political sphere and from the economic sphere, especially due to the preeminence of Wall Street and the “New Economy.” U.S. global

dominance is paralleled by weaknesses elsewhere: Latin America had its Lost Decade in the 1980s, while Japan's economy has been mired in its own Lost Decade of the 1990s; and Europe has stagnated due to the transition in Eastern Europe and the policies implemented to meet European Monetary Union criteria.

The two economic bases of U.S. strength have been badly shaken in the recent past. Wall Street has not recovered momentum since the 1998 Russia/Brazil crisis; and in early 2000 the New Economy began a long period of retrenchment. Other problems of the U.S. economy during the 2001 recession—manufacturing slowdown, low household savings, and huge trade deficit—are all linked to the strong dollar. The overvaluation of the dollar thus appears to be the obstacle to correcting this situation (Godley and Izurieta 2001, Krugman 2001).

This analysis rests on the heroic, and contradictory, assumptions that the dollar is the ultimate positional asset in the neoliberal order, and that its value can be manipulated at will. The roots of global excess demand for the dollar is a half-century old. The dollar-based Bretton Woods system created this demand in the immediate post-war period, due to the near-total dominance of U.S. manufacturing. The Marshall Plan initially channeled dollars to Europe, while the Korean War accomplished this in Japan. By the 1960s, European and Japanese industry had reestablished its productive capacity, and the U.S. dollar became increasingly overvalued; in consequence, the current account slipped into deficit even while U.S. companies were buying foreign competitors. This led to a debate about the dollar shortage. An outflow of dollars is sustainable only if the rest of world is willing to hold them. The well-known essay by Despres, Kindleberger, and Salant (1966), cited above, replaced the trade-surplus rationale for the dollar shortage with a rationale based on the U.S.'s superior financial and investment markets.

The Bretton Woods fixed exchange-rate system did not survive the stresses of this period; policy flexibility was needed, as Volcker (1979) noted in the above quotation. The dollar fell through the 1970s, and its structure of financial intermediation fell into disarray. The leadership of the U.S. was challenged: Europeans viewed the U.S. as exporting some of the worst effects of 1970s stagflation to Europe (Parboni, 1979). By the end of the 1970s, the economy was in disarray (see Figure 3), and U.S. economic policy was guided by marketization and deregulation. U.S. workers were subjected to deindustrialization and lower pay. Paul Volcker (1979) described the mood among U.S. policy-makers: "a controlled disintegration in the world economy is a legitimate objective for the 1980s."

In this chaotic period, the "high dollar" was reestablished. The U.S. shifted from active to passive exchange-rate management, captured in McKinnon's (1979) suggestion that the U.S. is the "nth country" in a world of "n-1" managed currencies. At the same time, the Reagan Administration implemented a macroeconomic policy that imposed high interest rates as a means of attacking inflation, on the one hand, and expansionary fiscal policy as a means of stimulating demand, on the other. The result was a shift of overseas wealth-owners (especially Japan) into dollar-denominated assets, a rise in the value of the dollar and a rapid deterioration of the U.S. current account. As defeat in Vietnam receded into history, the Reagan Administration reasserted U.S. military might.

The high U.S. dollar led to distress in allied nations when the Latin American debt crisis broke out in 1982 amidst skyrocketing global interest rates. By 1985, U.S. trade was badly in deficit, leading to the Plaza Accord, which forced the yen up and led to great improvements in U.S. export performance. A period of relative in the value of the dollar and

of net exports followed. As noted this balance rested on the strength of the U.S. itself, which in turn depends on military power; the size of the U.S. economy; the sophistication and openness of its financial markets; and the shrinking list of prosperous, secure alternatives.

This period of stability has come apart since 1995, due jointly to the extended rise in U.S. financial-market prices; the periodic financial crises of the late 1990s; and the impact of these events on private market expectations. The rise of the dollar in this period, and the failure of the dollar to drop in response to interest-rate easing in 2000-01, can be attributed to the status of the U.S. as a safe haven in a world of crumbling sanctuaries and alternatives.

Minsky's Model and Global Imbalances. Overall, the Neoliberal era has seen the U.S. shift from the low dollar of the 1970s to a "high dollar" regime, characterized by structural deficits on current account, from the 1980s onward. This has transformed the Big-Government Minsky cycle. No longer is the cyclical downturn triggered by rising prices, and reversed through accommodative monetary policy. As shown in section 3, price inflation and the real interest rate no longer vary systematically over the cycle. The high dollar disciplines prices; and monetary policy is aimed at the dollar as much as at domestic conditions. Similarly, U.S. lender-of-last-resort interventions are no longer clearly linked to cyclical fluctuations. U.S. equity prices, in turn, reflect not simply domestic conditions but overseas wealth-holders' assessment of the relative desirability of U.S. equities. Of course, interest-rate management is not the only tool aimed at enhancing the value of U.S. assets in global portfolios. Regulatory and underwriting policies also do their part, by leading to the creation of an unprecedented pool of securitized and relatively safe credit.

The U.S. economy is likely to stumble in the Neoliberal period when its corporations can no longer use financial leverage to enhance their rates of return on capital, and U.S. households are no longer able to simultaneously be the world's consumers of last resort and its borrowers of first resort. U.S. households, in particular, have participated in a debt explosion since 1995.⁴ Household cyclical debt patterns have shifted in the Neoliberal era. Empirical tests suggest that household overindebtedness has become a trigger for Neoliberal downturns, whereas it previously was not; and consumer debt grows at a faster pace in Neoliberal than in Big-Government expansions.

The shift from the low dollar of the 1970s to the high dollar of the Neoliberal regime has had one further significant effect via equity-market price effects. The U.S. corporate sector has become ever more dominant relative to other national sectors (see Dymski 2002). The global dominance of Wall Street, reflected in the role of the U.S. as investment locus of last (first?) resort, is clearly evident in the Neoliberal era; and U.S. business cycles will reflect these structural shifts.

Kalecki's Political Business Cycle and Global Imbalances. It follows from this argument about the dollar that those with substantial amounts of dollar-denominated wealth hold the key strategic position within the U.S. In this context the shift of the U.S. toward greater wealth inequality during the Neoliberal period (Wolff 1995, 1998) has been a key factor in softening the Kaleckian political constraint. The neoliberal period witnessed a weakening of trade unions in the U.S. and the relocation of a large proportion of U.S.-based manufacturing to peripheral regions or offshore. Much of the manufacturing which survives has imported lower wages and labor standards from abroad; most workers now live "one

⁴ Net increases in real corporate non-financial debt did not keep pace with the ascension of U.S. equity prices in the late 1990s.

paycheck at a time.” The service economy, in the meantime, has grown in a bifurcated manner: on the one hand, privileged enclaves of workers with specialized skills, who command scarcity rents and have interests aligned with wealth-owners; on the other, reserves of economically insecure workers in routine tasks paying low wages, mostly minority and often undocumented.

These shifts in wealth and income distribution have had several effects. For one thing, the changing composition and real wages of production and routine-task workers is undoubtedly, along with the high dollar, a determinant of the low and stable inflation rate of the Neoliberal era. In addition, business and consumer services have increasingly been targeted toward upscale customers—the prosperous few whose fortunes are tied to the stock market—while being supplied by low-wage and immigrant labor. This supply-demand interlock, like the rise of the global factory and of immigrant labor, affects the dynamics of Kalecki’s political business cycle. Gains in employment will have very different economic rewards for ‘average’ (routine-task) workers than did employment gains in the Big Government era. And unemployment pressures may operate differently than before: pain felt in the lower reaches of the wage and skill structure may be invisible in the privileged reaches of the workforce (and vice versa). Some portions of the “working class” gain when new sources of low-wage labor are opened up; and other portions lose. Class solidarity by workers threatens to dissolve in the face of the working class’s numerous skill-based, education-based, racial and gender divides (Dymski, 1996b).

6. Conclusion

This essay has updated Dymski and Pollin’s (1994) empirical investigation of Minsky’s small/big government cyclical variability. Dymski and Pollin conjectured that the 1980s represented a return to small-government cyclical patterns. The current paper suggests instead that the 1980s and 1990s represent a new “Neoliberal” period, with its own distinctive cyclical dynamics. Others have defined the Neoliberal era as a period of global deregulation and privatization. This essay has shown that the post-1980 period also has distinctive business-cycle dynamics—GDP and employment and investment growth has become less volatile, and growth periods have persisted for longer than in the past. Inflationary pressure has virtually disappeared due to the strong dollar; monetary policy has shifted in focus from domestic to global markets; and Kalecki’s upper bound on unemployment has been altered through structural shifts linked primarily to globalization processes.

Why have these cyclical dynamics changed? Since 1980, the U.S. dollar has persistently been high, and the U.S. external balance has persistently embodied a deficit on current account and a surplus on capital account. This paper has gone on to explore the causes of the structural asymmetry between the U.S. economy and all remaining nations in the global economy. These causes include the role of the U.S. as a global safe haven; the emergence of U.S. households as consumers of last resort; the global power of Wall Street; and behind these factors, the global reach of the U.S. military.

Clearly, no economy can avoid the “law of gravity” and expand without limit; the U.S. has had a recession before reaching the end of history. U.S. prosperity now rests on the ability of the American household to maintain consumption expenditures and absorb more debt—the knife-edge balance between asset-price appreciation, debt buildup, and consumption. This balance has become more precarious as the boom in financial prices has spread into housing and other positional assets. U.S. prosperity also depends on the dollar’s safe haven role in a world of stagnation and insecurity.

Thus far, the dollar's safe-haven role has worked to the advantage of the U.S.: the worse are conditions in the rest of the world, the higher the rental value of the dollar, and the more unbalanced the United States' external position can become. Can this be the sustainable calculus of 21st Century economics? It seems unlikely. Despres, Kindleberger, and Salant once argued that a global dollar shortage justified a U.S. trade deficit together with a high dollar. What is on offer now, perhaps, is not so much a dollar shortage as a global security shortage. Eventually, the globe's leading nations will have to choose yet again between military and populist solutions to problems of global capitalist crisis. History has recorded how this choice was resolved in the last century; can we be wiser in this new one?

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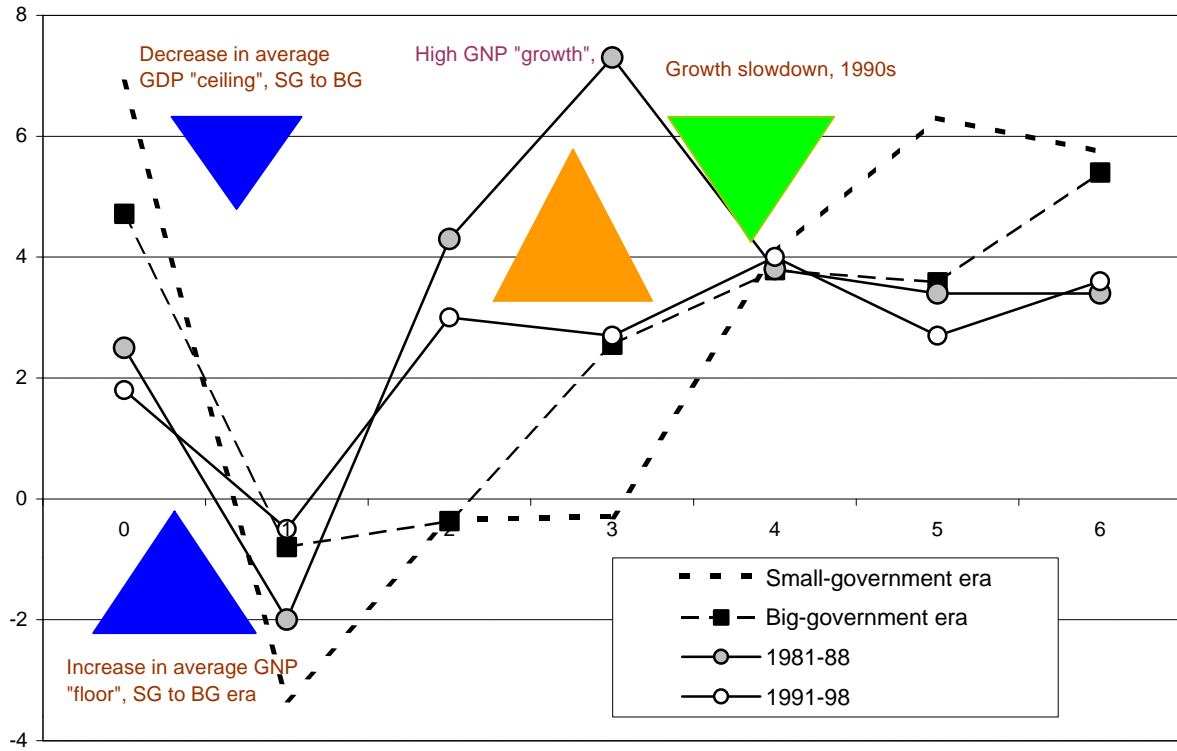
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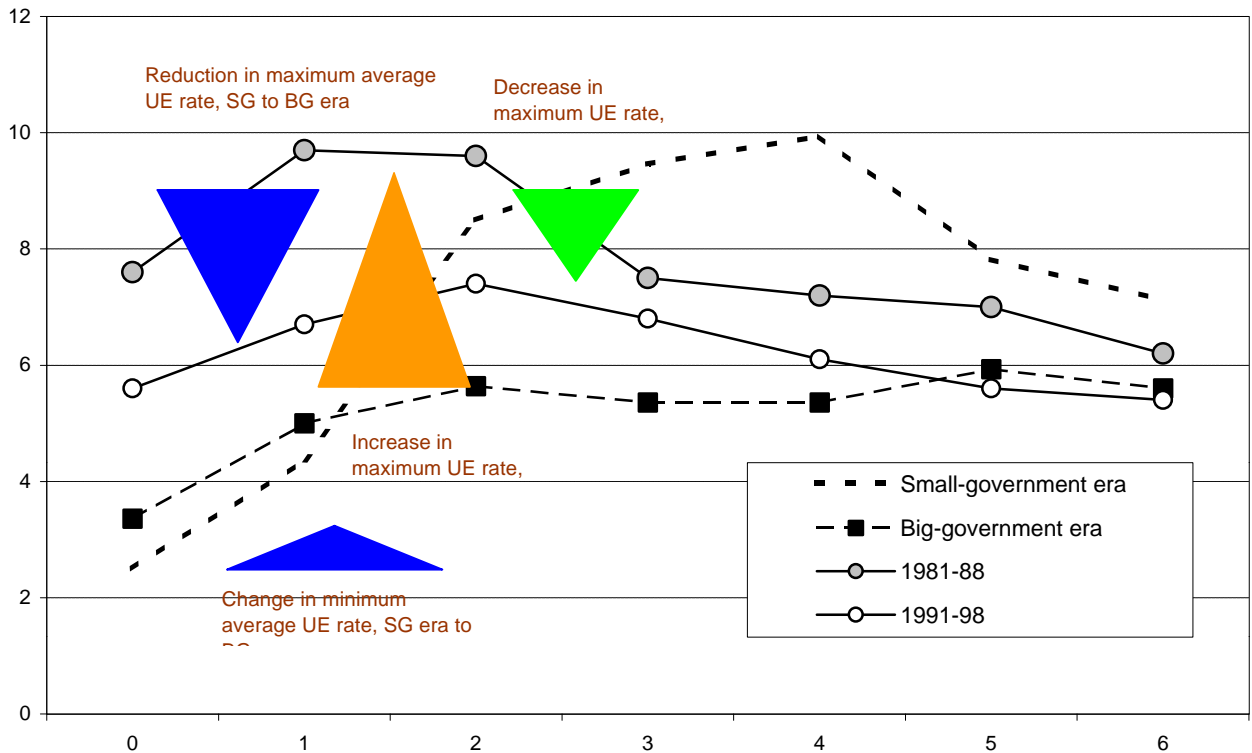
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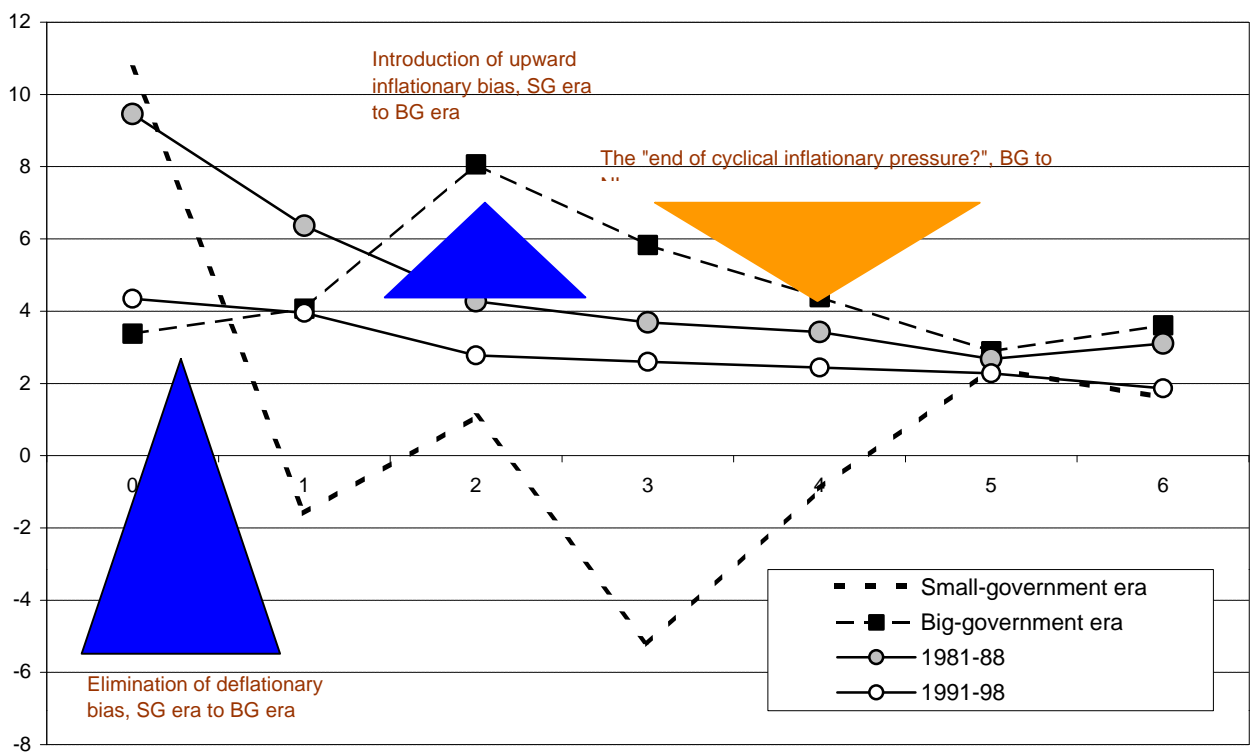
Figure 1. Post-Peak U.S. Real GDP Growth:
Small and Big Government and Neoliberal Eras



**Figure 2. Post-Peak U.S. Unemployment Rate:
Small and Big Government and Neoliberal Eras**



**Figure 3. Post-Peak U.S. Inflation Rate (GDP Deflator):
Small and Big Government and Neoliberal Eras**



**Figure 4. Post-Peak U.S. Real Interest Rate:
Small and Big Government and Neoliberal Eras**

