

The crisis of US neoliberalism and the risk of current economic stagflation

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Abstract

Purpose – Since the outbreak of COVID-19, tremendous changes have taken place in the US economy – the economic growth in the whole year of 2020 was negative, and though it enjoyed a significant rebound for the first half of 2021, the growth rate began to decline rapidly by the third quarter, and inflation suddenly rises rapidly, which after came the all-time highs of the “misery index” consisted of the inflation rate and unemployment rate. All signs indicate that the US economy will likely enter a “stagflation” crisis.

Design/methodology/approach – This paper analyzes the institutional and social contradictions in the United States during the neoliberal era from the perspectives of domestic social structure of accumulation (SSA) and international SSA based on the SSA theory.

Findings – The current risk of stagflation in the US economy is a concentrated outbreak of the long-term accumulated contradictions in neoliberal SSA under the impact of the epidemic, which is the product of the irreconcilable contradictions inherent in the capitalist mode of production.

Originality/value – Based on this analysis, the paper points out that with the deepening of the crisis, the neoliberal SSA is likely to end and a new SSA will be established gradually.

Keywords US economy, Stagflation, Neoliberalism, Social structure of accumulation theory

Paper type Research paper

The outbreak of the COVID-19 pandemic in 2020 wreaked havoc on human society – humans have not gotten rid of the pandemic’s effect yet, and global politics and economics also took a huge hit. Under the pandemic’s impact, the global economy grew negatively for the first time over the years in 2020, with a growth rate of -3.2% . Only China witnessed slight growth in its economy (2.3%), among the top ten economies in the world. Other nations experienced negative economic growth. As the world’s largest economy, the United States had an economic growth of -3.5% in 2020, according to *World Economic Outlook* by the [IMF \(2021\)](#).

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The US unemployment rate was more dismal, surging to a record 14.7% in April 2020, almost twice during the financial crisis between 2007 and 2009 [1]. There was an array of political and social issues, which were more shocking, accompanied by these economic problems. Though positioned as the top economy, the US failed to produce enough facial masks and protective equipment for medical workers. Daily necessities in the US were in short supply as well. It was laughable to see the following cases in the US society exemplified by empty supermarket shelves, people scrambling to get hand cleaners, spaghetti and sardine, and fighting for toilet tissues. What the US government behaved was quite jaw-dropping. The Trump administration adhered to liberalism in dealing with the novel coronavirus regardless of the sharp rise of the infected and deaths, and Trump even called on people not to wear masks, which was absurd. Under the pandemic and economic crisis, the killing of George Floyd, a black man, by the police in the United States has ignited long-standing racial conflicts in the United States, and riots and protests across the country have escalated. At the end of 2020, Trump lost to Biden in the presidential election, and fierce clashes broke out between supporters of Trump and Biden, throwing the political situation into turmoil. It is fair to say that 2020 witnessed ongoing intertwined political, economic and social conflicts in the United States. In 2021, as the impact of the epidemic gradually stabilized and the global economy began to recover, US's real GDP rose by 6.2% year on year in the first half of 2021, seemingly indicating it had managed to survive the short-term impact of the pandemic. However, its GDP growth slumped to 2.1% in the third quarter of 2021. Meanwhile, inflation in the US was soaring, reaching 6.2% in October, the record high in 31 years [2]. All these signs show that the US economy has likely entered a new round of the "stagflation" cycle accompanied by crises of political and social contradictions in every aspect. Social structure of accumulation (SSA) offers a relatively systematic and comprehensive perspective to understand such a crisis deeply. This paper will analyze the close relationship between neoliberal SSA and the US stagflation crisis from both domestic and international perspectives, combined with the basics of the SSA theory and the main features of neoliberal SSA, namely, financialization, globalization and liberalization.

1. SSA theory and economic cycle

Capital accumulation has never been in steady equilibrium but constantly features cyclical fluctuation. According to Marxist economics, capitalist economies always go through a cycle of crisis, recession, recovery and boom, namely, the capitalist economic cycle. Marx (2009b) noted in *Capital* that "If we observe the cycles in which modern industry moves — state of inactivity, mounting revival, prosperity, over-production, crisis, stagnation, state of inactivity, etc., which fall beyond the scope of our analysis." In the history of economic theory, there are four well-known economic cycles: the Kitchin cycle (lasting 3–5 years), also known as the inventory cycle, with inventory as the main reference; the Juglar cycle (7–11 years), also known as the fixed asset investment cycle, with the increase of fixed asset as the main reference; the Kuznets cycle (15–25 years), also known as the construction cycle, with the rise and decline of construction activities as the main reference and the Kondratiev cycle (45–60 years), also known as the long economic wave, which is the longest fluctuation cycle and usually considered to be closely related to major technological revolutions and large-scale infrastructure construction investments (Gao, 2018).

The academic circle has studied the Kondratiev economic wave for a long time. Several significant theories have been developed to explain the internal formation mechanism of the Kondratiev economic wave, including the technical long-wave theory pioneered by Schumpeter, the Marxist long-wave theory constructed by Mandel, the regulation theory of the regulation school and the SSA theory proposed by David Gordon. Schumpeter's "long wave" theory of technology emphasizes the decisive role of technology, arguing that major

technological breakthroughs and the depletion of social production potential they unleash are the main drivers of economic fluctuations. Mandel's "long wave" theory focuses on profit, believing that the rise and fall of profit rates cause long-run fluctuations in the economy and highlighting the impact of class struggle. The regulation school examines the dialectical relationship between technology and institutions, interpreting the harmony and conflicts between the two as the main factors of long-term economic fluctuations. The SSA theory emphasizes that the formation and decline of the specific institutional environment conducive to capital accumulation, namely, the SSA, play a decisive role in economic fluctuations in the long run. It can be seen that the SSA theory is not confined to the decisive role of technology; instead, it highlights the formation and disintegration of the whole set of institutions. Compared with regulation theory, which also studies institutions and focuses on structural analysis, the SSA theory is more inclined to the analysis of class struggle (Kotz *et al.*, 2018). In addition, the SSA theory provides the most detailed analysis of the institutional structure, focusing not only on class struggle but also on the financial institution, the relation between capital and the public, the relation between the nation and citizens, and even family relations, which makes it the highest-rated unorthodox analysis of the institutional changes in capitalist societies (Ding and Yin, 2011).

The SSA is a dynamic process, and the set of institutions itself is constantly and partially adjusted to the needs of accumulation. However, in the long run, when the core of the institution becomes untenable, the whole institution will break down. The end of the Great Depression between 1929 and 1933 indicated the end of classical *laissez-faire*. The United States gradually established state monopoly capitalism which reached the golden era following Second World War. However, the SSA intervened by the government made the US stuck in stagflation in the 1970s. Relevant explanations in Western Marxist economics for it include the traditional theory of the increased organic composition of capital and underconsumption, as well as the emerging theory of profit squeeze, from which the SSA theory derives (Meng, 2019). In this context, neoliberalism has taken the stage of history, mainly featuring financialization, globalization and liberalization.

There is a constant debate among the school of SSA as to whether neoliberal SSA is a new SSA. Those who hold the opposing view believe history is not a cyclical process as people have come to realize the drawbacks of free markets and the necessary role of government intervention, and it is impossible to regress to liberalism (O'Hara, 2006). However, the characteristics of capitalist economic development have continuously shown that neoliberal SSA is a radical replacement for state monopoly capitalism, confirmed by the outbreak of the financial crisis in 2008. Scholars represented by Martin H. Wolfson and David M. Kotz proposed reconstructing the SSA theory of the 21st century, which suggests that the social structure of neoliberal accumulation is not centred on capital accumulation but on profit, with labour–capital relation as the core of institutions and the global as a unit of analysis. After the 2008 financial crisis, some scholars of the SSA school argued that the financial crisis signalled the end of this process of financialization, and thus, neoliberal SSA would be ended. However, the direction of capitalism in the following decade or so is not indicative of the end of neoliberal SSA. Also, although the Trump administration's counter-globalization policies seem to show features that contradict the globalization advocated by neoliberalism, this trade counter-globalization is actually an attempt to pave the way for the globalization of financial capital, which is still a continuation of neoliberalism, only that this continuation is showing that the US neoliberalism is increasingly unsustainable and can only be forcibly supported by the bourgeois government's "rogue" behaviours of overdrawing a country's credit.

Since the outbreak of the COVID-19 pandemic, scholars have continually revisited the question of whether the neoliberal SSA has ended. Kılıç (2021) argues within the framework of the long-wave theory that the COVID-19 pandemic, as a long-wave turning point, is likely to signal the end of neoliberal SSA and has created an economic crisis triggering an

ideological transformation and further weakening neoliberalism. Chinese scholars have also studied the current economic stagnation and democratic political crisis in the capitalist society based on the SSA theory. Ge (2021) analyzes the current situation of repeated “failures” of capitalist democratic politics, arguing that this is a shell of democracy that can no longer serve the social structure of neoliberal accumulation by maintaining the capitalist exploitation system. Yang (2022) analyzes the causes and effects of capitalist economic stagnation since the financial crisis, emphasizing that the institutional structure of neoliberal accumulation has led to economic stagnation, which in turn has triggered a crisis of governance in contemporary capitalist societies. These studies analyze the current complex, acute conflicts in the United States from economic, political and ideological perspectives and express the continuing academic concern about the historical direction of neoliberalism. This paper analyzes the current risk of stagflation in the United States in light of the domestic and international crises facing neoliberalism based on the three main features of neoliberalism (i.e. financialization, liberalization and globalization) and illustrates that once the US economy enters a stagflationary crisis, neoliberal SSA is likely to die out from stagflation, just as it was born from stagflation.

2. Neoliberal SSA crisis from the domestic perspective

The domestic SSA focuses on the means of accumulation within a country under the SSA, how the social institutions guarantee the accumulation, and the impact of accumulation on society. Under the neoliberal SSA, the main domestic manifestations of accumulation include liberalization and financialization. Liberalization is manifested in the deregulation of capitalists and the weakening of trade union influence, while financialization is reflected in economic development deviating from the real economy and the deepening of financialization, which increases economic risks and social polarization between rich and poor considerably while bringing profit growth to capitalism.

2.1 *The gap between rich and poor – political and social crises*

According to Marxist political economy, the fundamental purpose of capitalist production is to obtain surplus value, the result of which is social polarization, i.e. capitalists are richer and workers poorer, which leads to a shortage of effective demand and triggers periodic economic crises in capitalist societies. Therefore, there is a need for the government to regulate income distribution to avoid excessive polarization between the rich and the poor. Under the SSA under post-war control, a period of relative harmony in labour–capital relations emerged through institutional arrangements such as capital controls and welfare state building. However, after neoliberal policies were implemented, capital lost its restraints and soon began to nibble away at labour’s share of income. Neoliberal SSA became a booster for capital to keep gaining exploitative profits and also widened the gap between the rich and the poor in the United States.

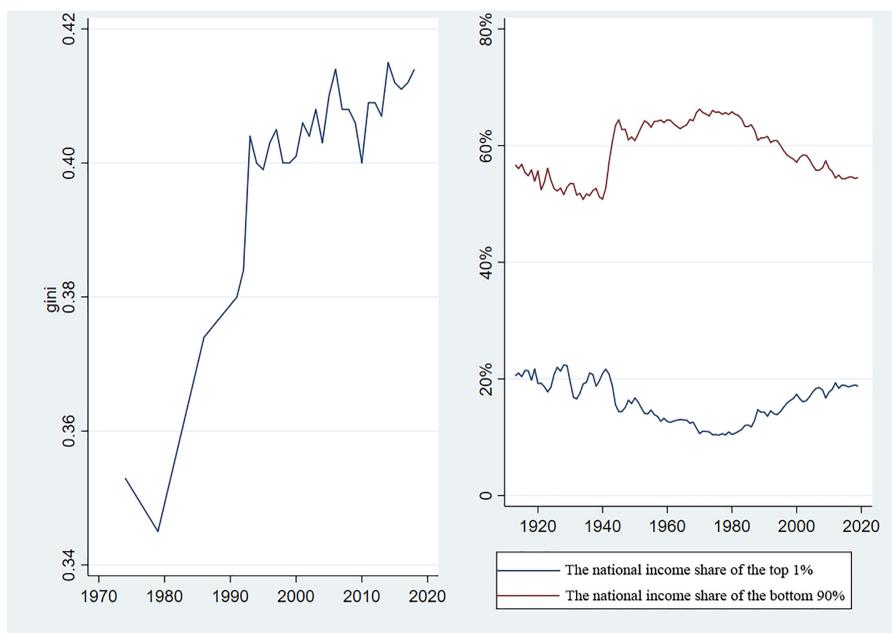
The main reasons for the widening gap between the rich and the poor due to neoliberalism are as follows: First, under the neoliberal SSA, the capitalist society has demonstrated the characteristics of “strong capitalists and weak labour”. Deregulation of capital makes capitalists dominate in the game of labour–capital relations; therefore, the influence of trade unions decreases, and the working class faces unemployment, low wage growth and wage decline. With the continuous development of economic globalization, this problem has become increasingly severe. Second, the social structure with profit as the main purpose of accumulation makes wealth highly concentrated in the rich class in developed countries, and then money has more political power, and the right-wing liberal (conservative) forces supported by big capital always tilt policies towards the capitalist class. Third, the government repeatedly adopts tax reduction as an important neoliberal policy. The tax cuts

enable the wealthy class to enjoy large tax breaks. Besides, the rich make income taxes regressive through various tax planning tools. Finally, financialization further reinforces the inequality between the capitalist and working classes. The stock market boom brings about the rising prices of assets, which are only enjoyed by a few, and the intergenerational transfer of wealth can be well achieved through equity holdings, thus creating an unequal intergenerational transfer of wealth. When the economy is hit, massive capital transfusion planning for financial capital becomes the monopoly of a few elites, while the working class bears the burden of unemployment caused by recession and austerity.

The neoliberal elite claimed that neoliberal policies would lead to faster economic growth and benefits for all, proposing the so-called “trickle-down economics”, in which wealth would trickle down to the poor as the rich became richer and benefit the poor and hence, workers should accept lower wages and cuts in important government programmes, so as to deceive the multitude into accepting neoliberal policies. Yet, more than 40 years later, the US economy is not only lagging behind the post-war golden age in terms of growth, but the gap between rich and poor is also widening, with the wealth of the rich increasing geometrically, while the real wages of the multitude have not increased for a long time. The newly released *World Inequality Report 2022* (Chancel *et al.*, 2022) shows that while income disparities between countries are decreasing, disparities within countries are increasing, with the gap between rich and poor widening much more within countries such as the United States, Russia and India than in other countries. In the US, inequality between the wealthiest and middle classes increased due to the huge debt burden (mainly mortgages and student loans). After the pandemic broke out, the US government, kidnapped by financial monopoly capital, disregarded the lives, health and safety of the general population and adopted an unlimited quantitative easing monetary policy to maintain confidence in the financial markets, pushing up stock prices and housing prices and allowing the highest income group to enjoy asset appreciation. US stocks have been on a sustained rally again after several meltdowns, with stock prices of several tech giants reaching record highs and capitalists’ wealth growing to a greater extent. According to an analysis of Forbes data by the Institute for Policy Studies, the total wealth of all billionaires in the US increased by 2.071 trillion dollars (70.3%) from 18 March 2020 to 15 October 2021, with the total wealth of the richest five of the more than 700 U.S. billionaires, Jeff Bezos, Bill Gates, Mark Zuckerberg, Larry Page and Elon Musk, increasing by 123% during this period, from \$349 billion to \$779 billion. Executives, who are highly tied to the interests of the capitalist class, also share in the “benefits” – the average pay of CEOs among the 100 largest low-wage employers in the US increased by 15% in 2020, [3] while the grassroots people suffered a huge impact. For one thing, unemployment was rising. According to researchers at the University of Chicago, the unemployment rate was the highest among the lowest-income group, while it reached the lowest level among the highest income between 1 February 2020 and the end of June 2020. For another, basic livelihoods were difficult to secure, with more than 580,000 homeless people and more than 50 million hungry people in the US in 2020 (Cajner *et al.*, 2020). The epidemic has brought about the Matthew effect of the rich richer, the poor poorer.

Figure 1 shows the state of income inequality in the US under neoliberal SSA. The US Gini coefficient has continuously increased since the US entered the neoliberal age in the 1970s. The national income share of the top 1% of US earners has been rising, while that of the bottom 90% presented a declining trend. According to the Organization for Economic Co-operation and Development (OECD) data, the richest 1% of Americans occupied 42.5% of the national wealth, far more than any other OECD country, including New Zealand, which ranked second, whose figure reached less than 28%.

The polarization between the rich and the poor caused by neoliberalism has brought about severe political and social crises. The widening income gap has intensified the class contradictions in society, and the first manifestation of the class contradictions is the conflict



Sources: World Bank and World Inequality Database

Figure 1.
US Gini coefficient and
the proportion of the
income of different
classes in national
income

between the ordinary people and Wall Street. From the “Occupy Wall Street” movement in 2011 to the “war” between retail investors in the US stock market in early 2021, all of these incidents reflect the strong public outcry against the upper class represented by the financial capital in the United States. The intensification of class contradictions has also led to significant public distrust of the current institutions. The Trump administration came to power as a representative of right-wing populism, taking advantage of the public’s disappointment with elite politics and dissatisfaction with the status quo. Although a series of “unconventional” policies during Trump’s administration won the goodwill of some people at the bottom, the identity of Trump as a spokesman for capitalists was exposed again after the outbreak of the epidemic, and his poor epidemic prevention policies caused huge losses to the lives of the American people. After Biden took office, the situation has not improved much, and his approval rating has been at record lows for more than a year since his inauguration, [4] reflecting the stubborn political and social problems in the United States.

2.2 Financial crisis – financial bubble ballooned

The neoliberal SSA focuses on adjusting the regulated SSA influenced by Keynesianism since the post-war period. In the 1970s, the profit margin declined after a long phase of Keynesian policies. Afterwards, these policies were gradually replaced by liberal policies to restore the rate of profit by strengthening labour exploitation. Neoliberal SSA did contribute to the improvement of the capitalist economy, and the institutional adjustments that weakened union power and stagnated workers’ real wages also helped to slow the decline in the rate of profit. Meanwhile, capitalists who were no longer bound by strict constraints launched a frenzied pursuit of profit. Therefore, neoliberal SSA focuses on profit rather than capital accumulation and economic growth. In order to chase profit, neoliberalism advocated

deregulation of the financial sector so that a large amount of surplus capital began to pour into the financial sector, various financial innovation tools were born, and the financialization of the economy intensified. Thus, financialization is considered the core of neoliberal (Ding and Chen, 2017).

Marx (2009a) noted, “All nations with a capitalist mode of production are therefore seized periodically by a feverish attempt to make money without the intervention of the process of production.” From the distribution of surplus value produced, financial capital should be subordinate to industrial capital and thus obtain a part of the surplus value ceded by industrial capitalists. However, financial capital is more expansive than industrial capital. In the regulated SSA, a relatively strict financial supervision and regulation institution can inhibit the barbaric increase of financial capital to a certain extent, while in the neoliberal SSA, with the loosening of financial regulation, financial capital and industrial capital become more independent of each other and even operate in reverse, where financial institutions are obsessed with the direct pursuit of financial and speculative gains without serving the accumulation of industrial capital.

Financialization enabled the United States to enjoy the thrill of generating money through capital without production, and the whole US economy deviated from the real economy, where all means of generating money were capitalized and financialized and the financial bubble grew increasingly larger. Several quantitative easing policies adopted by the US government kept interest rates extremely low, contributing to the leverage operation and the prolonging of financial bubbles. Even US households have been financialized, and property income has become a major source of income for US households. In this way, Americans are firmly tied to the chain of financialization by capitalists. Lu *et al.* (2021) argue that the financialization of the economy is difficult to reverse, mainly because of the political influence of financial groups, the deep-rooted neoliberalism and the dependence on the financing-led growth model in the economic path.

The US academic circle also expresses concern about this phenomenon. The term “post-industrialization” was used earlier to describe the shrinking trend of the industry and the increasing proportion of the service industry in the US economy since the 1980s, and “deindustrialization” was generally accepted to describe this trend around the 2008 financial crisis, and the term “financialization of the economy” was used instead of “financial deepening” to describe the over-expansion of the financial sector during this period (Liu and Liu, 2020). Minsky (1977), who proposed the “Financial Keynesianism” theory, argued that with the excessive financialization of the economy, the root cause of economic volatility was the instability of the financial system and no longer the labour and product markets, which seems to have been confirmed by the reality: all of the recent economic crises broke out in the form of financial crises, from the Asian financial crisis in 1997 to the global financial crisis in 2008.

“Economic financialization” exerts an all-around influence on the macroeconomic policies in the United States. First, financialization makes it difficult for US industrial policies to play a role. Although the US has always been proclaimed as a typical free market economic system, the US government has played a significant role in strategic guidance and policy support for new industries and advanced manufacturing, and as the main driver of change in the US manufacturing industry, the US government has done more and better than China in implementing industrial policies (Jia and Chu, 2019), whose results can be seen in the Internet industry and Apple Inc. in the United States. However, the excessive financialization of the economy dilutes the role of industrial policy for innovation in the real economy through financial innovation. The effect of industrial policy is greatly reduced when financial innovation is increasingly detached from innovation in the real economy and occupies an increasing share of the national economy, which has been proved by history. The “Internet economic bubble” ensued when the IT revolution boom receded. Moreover, new industries

usually require a long development period, but financial capital is concerned with maximizing short-term profits. Major players in the capital market, such as venture capital and private equity funds, only focus on telling the story well to earn money through IPO with the fastest speed and then withdraw and seek new targets.

Financialization has also made monetary policy the main policy tool of the US government for countercyclical economic adjustment, while fiscal policy has been relatively weakened, and the maker of monetary policy, the Federal Reserve, has become an agent of financial monopoly capital. After the 2008 financial crisis, the mainstream media and academia have talked about the collapse of Wall Street as the end of neoliberalism (Klein, 2008; Stiglitz, 2008; Wallerstein, 2008). Some scholars in the SSA school also argued that the recession caused by the financial crisis had reached its worst state since the Great Depression, marking the collapse of the neoliberal SSA. However, the subsequent course of history has proved that neoliberalism is still perpetuated. The capitalist government has repeatedly tried to maintain the highly financialized mode of accumulation, which constantly adopts various unconventional monetary policies to inject liquidity into the financial markets. This accumulation mode entirely relies on the close combination of finance capital and bourgeois government.

However, due to the lack of new driver industries, industrial policies are difficult to work, and the shrinking real economy is unable to support the expanding virtual economy, which results in an expanding financial bubble, manifested by the divergence of the stock market from the real economy. From 2009 to 2019, the US GDP rose from 14.5 trillion dollars to about 21 trillion dollars, an increase of nearly 45%, while the Dow Jones Industrial Average soared directly from about 6,600 to a peak of 29,500 points in February 2020, an increase of nearly 3.5 times, and the stock market rose by more than seven times the rate of GDP growth. As a way to smooth the crisis, the “financial bubble” is brewing bigger crises. The economic crisis caused by the epidemic is an inevitable accident. The vulnerability of US stocks was evident when they suffered several meltdowns after the outbreak of the epidemic. To save the market, the Federal Reserve, as an agent of financial monopoly capital, not only launched zero interest rates and unlimited quantitative easing policies to inject liquidity into the financial market recklessly so as to boost market confidence but even directly entered the market, making the financial bubble expand rapidly and exacerbating the risk of a financial crisis.

3. Neoliberal SSA crisis from the global perspective

Since the stagflation crisis in the 1970s, the UK and the US have taken the lead in carrying out neoliberal reforms at home, causing major changes in domestic SSA, and with the help of economic globalization, they have promoted their neoliberal policies to most capitalist countries by dominating international rules and controlling major international economic and political organizations, thus forming a neoliberal international SSA dominated by the United States with unequal power and responsibility. These organizations include the World Trade Organization, the International Monetary Fund and the World Bank. The resulting dollar hegemony and military hegemony constitute the core strength of US hegemony. However, the long-standing US hegemonic policies are unpopular and generally opposed by other countries and people worldwide. The current neoliberal international SSA under the influence of US hegemony has changed dramatically, with the decline of US global hegemony, the blocking of financial expansion, the “de-globalization” of the economy, the rise to power of left-wing Latin American countries that have been the first to accept neoliberal policies, and the peaceful rise of socialist China, making the economic problems faced by the US even more complicated and difficult to pass on to other countries through the global market. The paper will analyze the global dilemma faced by the US economy from the following three aspects of the SSA: international trade, international finance and international politics.

3.1 International trade in SSA – the global supply chain faces crisis

Faced with the intensifying domestic social contradictions and political conflicts, the neoliberal US government did not carry out radical domestic reforms to change the neoliberal SSA, which is the cause of these crises, but tried to divert the contradictions outwards by exaggerating the threats of emerging economies and foreign immigrants to the employment situation in the US so as to consolidate its own rule. The US government adopted beggar-thy-neighbour policy actions in recent years, which worsened its relations with developing economies represented by China and widened the rift with developed countries. The United States has been the biggest debtor nation for a long time. In order to reverse the trade deficit, it always takes a hegemonic approach to force other countries to cut their trade surpluses with the United States voluntarily. When Japan's economy grew rapidly in the 1970s and 1980s, and its trade surplus with the US continued to expand, making it the largest creditor of the US, the US forced Japan to sign the Plaza Accord, which required the yen to appreciate against the US dollar. When the US regarded China as its main opponent, it launched a trade war against China, once again revealing its hegemonic and power politics. Faced with all kinds of unreasonable conditions imposed on China by the US, China insisted on fighting it without being submissive. Actual results have proved that there are no winners in trade wars. The important evil consequence of the US imposing high tariffs on Chinese goods and blocking their access to the US market is that the goods supply chain in the US is in trouble, becoming a major source of high inflation.

3.2 International finance in SSA – the expansion of financial globalization is hampered

A group of American left-wing economists led by Davita S. Glassberg firstly proposed the concept of “financial hegemony” in the late 1970s (Liu, 1999). Financial hegemony herein refers to a social relationship in which financial oligarchs and their political representatives, with big bankers and big institutional investors as their core, exert significant influence through control of economic activities and profit from them or achieve other political or economic goals. Due to the severe financialization in the US, no matter what type of crisis occurs, the first response from the US government is to “bail out the market” to safeguard the interests of financial capital. This also reflects the drawbacks of the US economy resulting from the long-term deviation of economic development from the real economy. The government is no longer the “night watchman” of the market economy but the “guardian” of the stock market. Once a “black swan” or “grey rhino” event occurs in the economy, all the US government can do is mechanically conduct quantitative easing and inject money into the financial market. The long-term excessive monetary issuance makes the financial bubble continue to expand, and the excessive monetary issuance is only in the hope that people all over the world will pay for it by virtue of the hegemony of the US dollar. Therefore, there is a new pattern featuring economic “de-globalization” and financial “accelerated globalization” in today's world economy. Global neoliberalism has evolved into the liberalism of capital, particularly financial capital. Cheng *et al.* (2019) argue that after the 1980s and 1990s, financial monopoly capital has been running wild in global financial markets, which is a manifestation of new imperialism, accompanied by currency wars, trade wars, resource wars, information wars, etc. Financial oligarchs and their agents have continued to plunder global resources and wealth, disregarding the rules of international trade and investment. The 1997 Asian financial crisis outbreak is typical in which financial capital disrupts global economic markets in pursuit of speculative profits. The trade war against China launched by the US also has the deep-seated purpose of forcing China to deregulate its capital markets and plundering wealth in China. The use of financial hegemony time and again to “pull the wool over the eyes” of the world has also overdrawn the credit of the United States, and the willingness of countries to accelerate the establishment of an alternative global financial

payment system has further increased. The process of “de-dollarization” is accelerating (Lian, 2022).

3.3 International politics in SSA – the US global hegemony is hard to sustain

Although the economic and military power of the United States remains unshakeable in the short term, the leadership of the US at the international political level is declining. The foreign policy under the Trump administration has shown a strong “isolationist” character, and the willingness to maintain the liberal international order has become increasingly negative. The COVID-19 pandemic has torn off the last fig leaf of the US, exposing the poor global leadership of the United States. The weakening of political leadership, which in turn has led to the decline of the US hegemonic position, is manifested in the following aspects:

First, the global credibility of the United States has declined. Income inequality and racial conflicts in the US are increasingly prominent. However, the bourgeois government, as the representative of capitalist interests, cannot seek radical social changes to change this situation fundamentally, and its consistent approach is to divert attention. For example, Trump has created international conflicts since he took office. Under his administration, the US has continuously withdrawn from international organizations it joined and international treaties it signed, imposed punitive tariffs on products exported to the US from other countries and raised the banner of populism and trade protectionism to cover up domestic conflicts. On environmental issues increasingly causing human concern, the Trump administration chose to withdraw from the Paris Agreement, which caused the credibility of the United States to fall dramatically. Since the pandemic outbreak, the global rollout of vaccines has also been fraught with inequality. According to the World Health Organization and World Bank, high-income countries, such as the US and members of the European Union, received far more than their fair share of vaccine doses. Although they only accounted for 16% of the world population, by mid-January 2022, high-income countries received almost 13 times more vaccine doses per 100 persons than low-income countries [5]. This inequality made the world realize once again the essence of the so-called “global leadership” of the United States and the bourgeoisie’s claims of freedom and equality.

Second, the US military hegemony began to shrink. The global hegemony of the US is sustained by its military hegemony, which has cost the US a great deal of military spending, resulting in a huge drain on national power. According to Crawford (2021), economists and social scientists analyzed the costs of the wars in Afghanistan and Iraq, as well as the much smaller wars in Syria and Yemen, and concluded that the total cost exceeded 8 trillion US dollars. In order to keep the tax burden off the public, US military spending was primarily borrowed. However, it increased the government’s financial liabilities. The United States Allies have to share the military costs for each war, and even US military bases overseas require “protection money” from its Allies, leading to increasing disunity in its circle of Allies. In 1975, the US withdrew troops from Vietnam when it was in deep stagflation; today, the US has withdrawn from Afghanistan and is about to withdraw from Iraq, showing its military hegemony is at the end of its tether.

Third, left-wing leaders have come to power in Latin America, and neoliberalism has taken a global hit. After the introduction of neoliberalism in the United Kingdom and the United States, liberalization reforms in Latin America followed closely behind. From the late 1980s to the early 1990s, Latin American countries gradually shifted from general economic adjustment to the structural reforms advocated by neoliberalism and wholly abandoned their long-standing import-substitution industrialization strategy. Although the neoliberal policy once promoted the rapid economic development of some Latin American countries, it also led to severe polarization between the rich and the poor and sharp social contradictions. With the election of Chávez as president of Venezuela in 1998, Latin America entered the “left-wing era”. However, Latin America started to shift to the “right” again in 2015. But just a few years

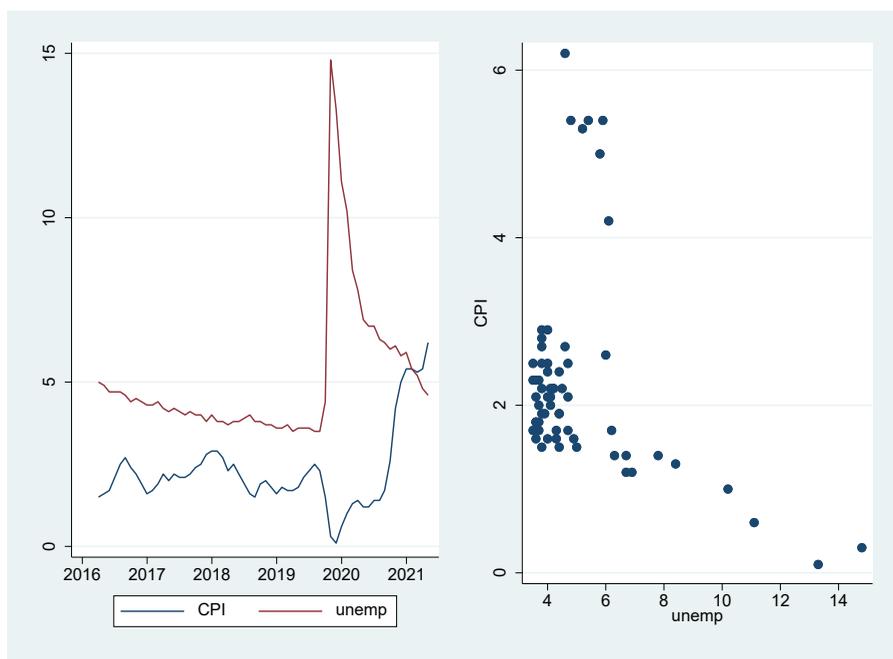
later, Latin American countries have quickly shifted to a “left-wing cycle”, with left-wing candidates winning elections in Bolivia, Peru, Honduras and Chile since 2020. If Daniel Ortega, Nicaragua’s re-elected president, and Brazil’s former president Lula da Silva, who has regained his popularity, are counted, it is clear that the politics in Latin American countries are generally shifting to the left, with opposition to neoliberalism as their common feature.

Fourth, China is approaching the centre of the world stage. Compared with the hypocrisy of American-style democracy, China’s idea of “a community of common destiny” is an initiative that truly meets the common interests of all peoples in the world. In terms of development approach, the Beijing Consensus is more scientific and justicial than the neoliberal Washington Consensus. China is also actively working to build a new international political and economic order by launching major initiatives such as the Belt and Road Initiative and the Asian Infrastructure Investment Bank, which have impacted the neoliberal international SSA. The pandemic outbreak has triggered a comprehensive awakening of the sense of community of common destiny (Hao and Xie, 2021). The people-centred socialist system with Chinese characteristics has given full play to its superiority over the capital-centred capitalist system, fully safeguarding the lives and health of the people and contributing Chinese solutions and wisdom to the world, demonstrating China’s capacity and its taking on international responsibility as a major power.

4. Risk of stagflation under the crisis of neoliberal SSA

As aforementioned, under the neoliberal SSA, the United States has faced the dilemma of a widening gap between rich and poor and an inflated financial bubble at home and internationally faced the problems of shrinking military hegemony and weakening dollar hegemony, as well as challenges from emerging developing countries such as China. This left the US with limited ability to respond to the crisis after the epidemic outbreak, which made the US have had to resort to excessive monetary issuance to deal with the crisis. This response has led to subsequent hyperinflation in the US economy, which is spiralling out of control. Moreover, combined with the limited growth potential of the domestic economy and the relative decline in international strength, the current inflation in the US is likely to evolve into stagflation.

Because of the deviation of economic development from the real economy, the government can only continuously expand the central bank’s balance sheet to stimulate the market after the external impact. After the pandemic outbreak, the US once again adopted “massive stimulus policies” to stimulate the economy and save the employment situation. According to former US Treasury Secretary Lawrence Summers, the current scale of the Federal Reserve’s economic stimulus is about five to ten times the scale of the stimulus after the financial crisis of 2007–2008, according to *Guancha (Observers)* in 2021 [6]. Although the unemployment rate has fallen, the crisis is far from subsiding and has manifested itself in the form of inflation. According to data released by the US Bureau of Labor Statistics, the US Consumer Price Index rose 6.8% in the past 12 months through November 2021, the largest increase since June 1982. Unemployment at an all-time high in 2020 and inflation at a multi-decade high in 2021 indicated that the US government only made a short-term trade-off between unemployment and inflation according to the basic principles of the Phillips curve. As shown in [Figure 2](#), the negative correlation between unemployment and inflation under the influence of the US macroeconomic policy after the outbreak can be clearly seen. However, this negative relationship exists only in the short term – the long-run vertical Phillips curve shows that there is no correlation between the two. Quantitative easing can stimulate the economy and reduce unemployment in the short run. But when new expectations have been formed in the market, this stimulus will no longer work, and economic growth will slow down again, unemployment will gradually rise, while inflation has permanently increased, so the whole economy will fall into stagflation.



Source: US Bureau of Economic Analysis

Figure 2.
Changes in US
unemployment and
inflation since 2016

The reality shows that the US economy is indeed moving towards the outcome of a long-run Phillips curve. There is almost a consensus that the current trickiest problem in the US economy is “inflation”, with the unemployment rate remaining relatively low. In other words, the US has chosen the latter between inflation and unemployment. However, wage growth has been eaten away by high inflation, and the low or even negative growth of real wages will eventually lay a hidden danger to the labour market. Moreover, when inflation comes to have to be dealt with, the impact of polarization between the rich and the poor at home on the economy will be prominent once the US chooses to tighten the economy. First of all, the current consumption of the US is maintained by excessive monetary issuance. When monetary policy is tightened, the current situation of a shrinking middle class and a huge bottom class will inhibit consumption growth and lead to a lack of aggregate demand, thus accelerating the short-term economic downturn. Second, inequality in education, training, nutrition, health care and other opportunities caused by income and wealth inequality undermines the quality of labourers and gives rise to a serious shortage of momentum for long-term economic growth.

In the past, the US could rely on the dollar hegemony to let the world pay for its inflation, but the dollar hegemony is constantly challenged today, as increasing countries realize the dangers of dollar hegemony and embark on the process of “de-dollarization”, and the effect of US manipulation of the global economy will be increasingly limited. In addition, the relative power of the US is also on the decline, and countries around the world are less willing to be influenced by the world order dominated by the United States. At the international level, the US economy faces two major contradictions: the contradiction between the inflation shift and the decline of US global hegemony and the contradiction between maintaining global hegemony and the international supply chain crisis. These contradictions are irreconcilable

or difficult to reconcile, as inflation shift must be achieved through hegemony, especially dollar hegemony, which means that it is more difficult for the US to take the initiative to compromise with China on the trade war issues since the ultimate goal of the trade war launched by Washington against Beijing is to maintain its faltering world hegemony (Long *et al.*, 2021). However, insisting on the trade war will further exacerbate the global supply chain crisis, thus increasing the inflationary pressure in the United States, making the stagflation crisis in the United States more difficult to avoid.

Today, several signals herald the arrival of the “stagflation” crisis: First is the inversion of the Treasury yield curve. Under normal circumstances, long-term yields are higher than short-term yields. Once long-term yields fall below short-term yields, the curve is inverted, which is a strong signal of recession. Historical data shows that the yield curve has inverted before every recession in the US economy in the past half-century. The two-year US Treasury yield once exceeded the yield on the ten-year note on 29 March 2022, and a number of long- and short-term Treasury yields have recently inverted, highlighting market concerns about a possible hard landing or even a recession in the US economy (Qin, 2022). The second is the international energy crisis caused by the war between Russia and Ukraine. The direct cause of stagflation in the US in the 1970s was the sharp inflation caused by the oil crisis in the Middle East, and the war between Russia and Ukraine is at a deadlock at the moment, causing commodity prices such as crude oil and wheat to soar, and as a result, the US inflation rate continues to rise, from 7.9% to 8.5% in March, reaching a 40-year high [2].

5. Stagflation and the future direction of neoliberal SSA

As Gramsci (1996) indicated, it is because the old is dying and the new cannot be born that various disorders occur during this transition period. The current risk of stagflation, as well as political and social crises in the US, is the outbreak of various contradictions accumulated over the past decades under the influence of neoliberal SSA catalyzed by the COVID-19 pandemic, which probably indicates the complete end of neoliberal SSA and the beginning of the construction of a new SSA.

The current scenario facing the US economy is not new. During the post-war golden age, the United States embraced Keynesian economic policies, strengthened government intervention in economic activities, and maintained economic prosperity by way of long-term expansionary fiscal policies. However, in the 1970s, the short-term Phillips curve stopped working, and the US economy began to experience stagflation, which lasted for more than a decade. The US government has adopted expansionary monetary policies again for a long time to maintain the superficial prosperity of the US economy, which has been financialized. The current problems of declining economic growth and high inflation suggest that history is likely to repeat itself. The current crises faced by the US are not only economic crises but also political and social crises. When neoliberal policies were first introduced, the labour–capital relation was still relatively harmonious since the post-war period, and the bourgeois government did not face such a great crisis of trust as it does today. Therefore, neoliberal claims could then “fool” the public to gain public support. At present, however, the public is extremely tired of elite politics, and social problems such as labour–capital confrontation and racial conflicts need to be solved urgently. The economic dilemma and the political and social crises have made the neoliberal SSA even more unsustainable.

The US government is confronted with a tough scenario of inflation and slowing economic growth at home, as well as the decline of global hegemony and the great challenge from socialist China at the same time. This situation of besetting by difficult issues both within and without the nation makes it hard for the US to postpone the crisis through time delay and spacial shift. Despite the US’s capacity for technological innovation remaining unquestionable, the likelihood of another new technological revolution like that in the 1990s is slim, and it is no longer realistic to stop the recession through technological fixes.

It is difficult to reconcile the contradictions between economic growth, price stability and social harmony through the policies of liberalization, privatization and financialization of the economy, which are advocated by neoliberalism. The “impossible triangle” contradictions make the neoliberal domestic SSA unstable. Moreover, neoliberalism has exacerbated the contradictions between countries and has been increasingly widely questioned by the international community. With the evolution of the international pattern of productivity and production relations, the neoliberal international SSA has become more difficult to maintain. Also, the lack of unity between the US and its Allies, the rise of the left-wing power in Latin America and the peaceful rise of socialist China indicate that the international neoliberal SSA is partially disintegrating. The spread of the neoliberal crisis makes Americans choose Trump and the Labour Party of the UK Corbyn. The typical Anglo-Saxon liberal model represented by the UK and the US constantly shows a tendency towards self-negating. Under the pandemic, the US economy once again fell into a predicament, which indicates that no matter which political party comes to power or which doctrine prevails, the basic contradictions of the capitalist system are irreconcilable, and the neoliberal SSA is unsustainable.

When an SSA shifts to another, it will inevitably involve a period of policy discontinuity, leading to economic adjustment and adaptation. Therefore, such a potential stagflation crisis is less likely to be a short-term phenomenon. The failure of the Trump Administration shows that the neoliberal SSA is not being replaced by conservative mercantilism, nor is extreme right-wing populism likely to become the mainstream of society. How the new SSA will be constructed in the future remains to be seen, but what is certain is that it is a major challenge to capitalist institutions. Both the US SSA at home and an international neoliberal SSA led by the US will tend to have increasing socialist elements, and socialist China will undoubtedly play a pivotal role in the formation of a new international SSA in the future.

Notes

1. <https://yte1.com/datas/aue?end=2022>
2. <https://zh.tradingeconomics.com/united-states/inflation-cpi>
3. <https://inequality.org/facts/wealth-inequality/>
4. <https://xw.qq.com/amhtml/20220413A00RB000>
5. <https://inequality.org/facts/inequality-and-covid-19/>
6. Former US Treasury Secretary Summers: Global economy may be headed for Japan-style stagnation. Available from https://www.sohu.com/a/500780606_115479

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