World Money and the End of US Imperialism

Radhika Desai
Department of Political Studies
University of Manitoba, Winnipeg, Canada.
desair@cc.umanitoba.ca

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A question is nagging the world – the question of its future order. The hegemony which the United States putatively exercises over the world capitalist order grows more threadbare with each passing week. Its powerful military, having shocked and awed the world with its power to destroy, seems unable to produce anything resembling order in a small nation of 22 million. Its finances, meanwhile, take on dimensions fantastical even by the recent standards of the financial world – a hyper-enchanted[1] realm where credit becomes tribute and debt, revenue in seemingly endless one-directional flows. In these circumstances, those who bet on the indefinite continuance of US hegemony, both its advocates and its critics, are beginning to seem credulous, even though they rely on apparently hard facts of US power – a military more powerful than that of the next 24 states combined,[2] an economy still the world's largest, central to the functioning of major circuits of trade and investment, and a currency still the world's key currency, giving the US economy seniorage privileges over the rest of the world economy.[3] Among those whose assessment of the current situation leads them to believe that US hegemony cannot last, however, the enormous and complex question of what may replace it has no easy answer though the possibility of China, with its impressive growth of the past three decades, emerging as the next hegemonic power of the capitalist world economy has occurred to many.

This paper argues, however, that a critical and accurate understanding of US hegemony and its current *dénouement* points to the impossibility of any successor hegemonic nation. The notion that the 20th century world capitalist order was organised under US hegemony and that the US had taken over this role from the UK, which had similarly presided over the expansion of the world capitalism in the 19th century, was held across a variety of theoretical approaches. However, in World System Theory (WST) it was the object of a far greater theoretical ambition. According to WST, in the course of a 500-year history, world capitalism was anchored to a hegemonic power, one that

[1] Alain Lipietz, following Marx, refers to the financial world as such, in *The Enchanted World: Inflation, Credit and the World Crisis*, London: Verso, 1985.
[2] Michael Mann, *Incoherent Empire*, London: Verso, 2005.
[3] Some prominent works advocating US imperialism are Max Boot, *Savage Wars of Peace: Small Wars and the Rise of American Power*, New York: Basic Books, 2003; Niall Fergusson, *Colossus: The Rise and Fall of the American Empire*, New York: Penguin, 2004; Charles Maier, *Among Empires: American Ascendancy and its Predecessors*, Cambridge, MA: Harvard University Press, 2006; various writings of Michael Ignatieff, Robert Kaplan, Sebastian Malaby and DeSouza, and, of course, the Project for the New American Century. Among its critics, not all of whom expect that it can continue indefinitely are Andrew Bacevich, *American Empire*, Cambridge, MA.: MIT Press, 2002; David Harvey, *The New Imperialism*, Oxford: Oxford University Press, 2003; Chalmers Johnson, *The Sorrows of Empire*, New York: Metropolitan Books, 2004; Michael Mann, *Op. cit.*; Colin Leys and Leo Panitch (eds) *The Empire Reloaded: Socialist Register 2005*, London: Merlin Press, 2006; Neil Smith, *American Empire: Roosevelt's Geographer and the Prelude to Globalization*, Berkeley: University of California Press, 2003 and *The Endgame of Globalization*, Routledge, New York, 2005.

organised its productive expansion, protection and money on a world scale. American hegemony was the latest in a succession of hegemonies that characterised the capitalist world order: the Dutch preceded the English and the Genoese, the Dutch. As Fernand Braudel originally saw it in a vast and rambling *ouvre*, each hegemony experienced a period of vigour marked by material expansion, followed by an 'autumn' in which financial expansion overtook productive expansion and laid the foundation for the emergence of its successor. Giovanni Arrighi recently streamlined and codified the main propositions of WST in his *The Long Twentieth Century,*[4] a work of impressive scope and rich detail.

WST was criticised by Marxists, in particular by Robert Brenner, for equating the world market with capitalism, an equation which made possible the idea of a 500 year-old history of capitalism, rather than dating its origins, as most Marxists like Brenner did, at the onset of agrarian capitalism in England and the resolution of the new class relations of that country in the Civil War of the 17th century. Less esoterically, WST argued that the underdevelopment of the Third World was a consequence of the development of world capitalism while Marxists, not disagreeing with the facts of underdevelopment, argued that their cause was the absence of the development of capitalist relations of production. The debate petered out, however, into the vastly varied experience of development and underdevelopment in the Third World.

The Marxist criticism of WST was not invalid, however. Giovanni Arrighi's recent analysis of the decline of US hegemony, an analysis which includes, moreover, a critique of Brenner's Marxist analysis of the long downturn in the US-led world economy and its declining ability to organise world-wide productive expansion runs aground precisely because of its definition of capitalism. Not only are Arrighi's criticisms of Brenner's emphasis on manufacturing wide of the mark, his own account of US hegemony and its decline reveals underlying problems which cannot be resolved without reference to production, productive relations and the class and state structures which arise therefrom.

Arrighi's aim in reconstructing out of the work of Braudel and more generally the French *Annales* school the long historical excursus stretching back over 5 centuries, comprising 4 'long centuries' of successive hegemonies, was to throw light on the latest 'autumn', to line the US hegemony and its phase of financialization up with past hegemonies and their autumns all the better to recognise their main lineaments. However, and here lies the rub, in his own account US hegemony in general, and the current financialization in particular, were anomalous. US hegemony was anomalous in at least two respects. In contrast to preceding ones in which the organization of world money was a concern of private institutions and actors, 'the "production" of world money was taken over by a network of governmental organizations motivated primarily by considerations of welfare, security, and power…World money thus became a by-product of state-making activities.'[5] Arrighi also came to the view that in contrast to previous hegemonies, US hegemony was never successful and that 'the new imperialism of the Project for a New American Century probably marks the inglorious end of the sixty-year long struggle of the United States to become the organizing centre of a world state. The

[4] Henceforth Arrighi's work in LTC and since will be taken to stand for WST as a whole. Any differences between WST and Arrighi lie beyond the scope of this paper.
[5] LTC, p. 278.

struggle changed the world but even in its most triumphant moments, the US never succeeded in its endeavour.'[6] Finally, in contrast to previous 'autumns', the current financialization features the declining power as the greatest debtor to, not the greatest creditor to, the power(s) mostly likely to succeed it. These anomalies were noted but nowhere were their implications for the theoretical structure of WST examined. When, rather blithely, Arrighi pointed to the possibility of a Chinese succession, he did not explore the conditions which determined the US failure and what they would imply for any other attempt at hegemony.

These anomalies point to serious problems in the basic theoretical structure of the WST conceptualization of the development of world capitalism with its tendency to posit 'the eternal return of the same' across vastly different phases of the development of the world market. WST can neither address nor rectify these problems because, despite the centrality of the distinction between phases of material expansion and those of financialization, and despite the negative 'autunmal' connotation which attaches to the latter, it pays insufficient attention to the relationship between the real or commodity-producing economy and the financial economy.

The discussion of the question of the relationship between the real economy and the financial, which has thankfully endured despite fashionable talk of 'tertierization', the 'new economy' and the financialization of even real sector companies, has taken two main forms. First, the negative effects of financialization on the productive economy, in particular the 'deflationary bias' it produces dampening productive activity, both within the US and for the world as a whole have been widely noted.[7] A second related set of issues are raised about the one-sided financial flows that characterise the current financial (dis)order. The US current account deficit is being financed by the rest of the world to the tune of over two billion dollars a day[8] and the bulk of the credit is supplied by East Asia, Japan and China in particular, and to a lesser extent India and other developing countries. These countries effectively pay US consumers to purchase their exports. It amounts to an unrequited tribute making sense neither economically nor, given that many of the countries rendering it could be employing these resources to increase production and welfare at home, politically.[9] These problems do figure in Arrighi's account, but without an appropriate theoretical account of the relationship between production and finance, only as empirical observations which remain untheorised.

And without such a theoretical account, he cannot examine the implications of the anomalies of US power for his theory. He cannot ask neither what made state organization of money possible and necessary, nor pay enough attention to the role of

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[6] HU-II, p. 115.

[7] The 1990s were particularly fruitful in terms of critiques of financialization. Some of the more important works include Paul Hirst and Graeme Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge: Polity, 1996; Peter Gowan, *The Global Gamble: Washington's Faustian Bid for Global Dominance*, London: Verso, 1999; Doug Henwood *Wall Street: How it works and for whom*, London: Verso, 1997; Gérard Duménil and Dominique Lévy, *Capital Resurgent: The Roots of the Neo-liberal Revolution*, Cambridge: Harvard University Press, 2004.

[8] In 2006, the US budget deficit was $ 856 bn, amounting to 6.7% of GDP (Source: IMF, *World Economic Outlook Database*).

[9] Taggart Murphy, 'East Asia's Dollars', *New Left Review* 40 (second series), July-August 2006 and Prabhat Patniak, 'Some reflections on China's Economic Performance', http://www.networkideas.org/news/jan2007/news31_China_Economy.htm have both called into question the economic as well as political viability of China's 'neo-merchantalist' role in the current world context.

nation-states – at least the more successful ones – as the 'resumes' of national class and productive relations in accelerating the spread of industrial production and resisting US imperialism nor yet ask how, in these conditions a new hegemony can be fashioned.

Indeed, from a point of view which takes production and relations of production and state power seriously, we are dealing here not only with a conflation of finance and production (as not being essentially different) but also of national independence and imperialism (since the former makes no difference to the larger imperial or hegemonic system). Arrighi focuses, following Braudel, on the '"non-specialized" top layer in the hierarchy of world trade … [where] profits are large, not just because the capitalist stratum "monopolizes" the most profitable lines of business: even more important is the fact that the capitalist stratum has the flexibility needed to switch its investments continually from the lines of business that face diminishing returns to the lines that do not.'[10] Along with state elites, this 'top layer' comprises 'particular communities and blocs of governmental and business agencies' which engineer 'the recurrent expansions and restructurings of the world-capitalist economy' to their own advantage.[11] With both the economics and politics – the 'capitalist' and 'territorial' logics of the 'world system' determined at this level, there is no need for Arrighi to distinguish wither between production and finance nor between a world of empires and one of nation-states.

However, the logic of the spread of industrial capitalism was indeed different. UK and US hegemonies, such as they were, were the only ones over an *industrial* capitalist world order. Their task in maintaining hegemony over a world capitalist system in which productive power spread with greater speed than ever before was much harder. The literature on development, focussed as it was on welfare, has tended to rightly focus on the limits of the spread of industry and productivity. However, even this limited spread beyond the confines of the first industrial capitalist country, the UK, beginning not much earlier than the late 19th century, has, within the space of less than a century, put the possibility of a single power dominating world capitalism as the UK did in the 19th century and the US did circa 1950 radically into question. Indeed, in retrospect it is clear that the productive (manufacturing) superiority on which these two hegemonies rested, and on which each of these systems of world money were anchored, were products of exceptional circumstances. The UK was the first industrial capitalist country and enjoyed a long productive superiority over pre-capitalist manufacturers before other industrial capitalist competitors came on the scene.[12] The US initially enjoyed the benefits of continental size, internal colonialism and 'natural protection' from other centres of capitalist accumulation, and came to benefit from the unprecedented destruction caused by two world wars in its competitors, as I have argued recently[13]. In a world where industrial power has spread even more widely, and in which these exceptional circumstances no longer impart overwhelming productive superiority, no single power can emerge hegemonic over the world industrial capitalist system. The current financialization represents not the passing of the torch and the flow of money from the declining hegemon to the rising because it represents the breakdown of a system of world

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[10] LTC, p. 8. He is referring to Fernand Braudel, *The Wheels of Commerce*, New York: Harper and Row, 1982, pp. 22, 231 and 428-30.

[11] LTC. P. 9.

[12] Colin Leys, *Politics in Britain*.

[13] 'The Last Empire? From Nation-Building Compulsion to Nation-Wrecking Futility And Beyond', *Third World Quarterly*, Vol. 28, no. 2, 2007

money anchored to an exceptional situation of US productive superiority which could not last.

A consideration of these aspects of the development of world capitalism puts into question the relevance of the very notion of the hegemony of a single power over the world capitalist economy at the current stage of development of the world capitalist order and invites us to re-conceptualise it outside the straight-jacket of 'the eternal return of the same' though without losing the broader perspective combining society and politics as well as economics which has been the most valuable aspect of Arrighi's work. It also throws new light on the parameters within which world money needs to be re-organised from its current disorder.

My point of departure for this exercise is the recent commentary by Arrighi on Robert Brenner's account of the recent development of the world economy. This encounter between what has recently been dubbed 'political Marxism'[14] of Robert Brenner, and the WST of Arrighi has the merit of bringing into focus the contrasting merits of the two kindred schools. My argument owes a great deal to both these approaches and rests on an attempt to reconcile their strengths by bringing into the field a third tradition, that of the theorization of national development. Focussed in recent decades on the Third World, but also including the national development experiences of the advanced industrial world, this enables us to frame an alternative conceptualization of the politics and economics of the spread of world capitalism and the system of nation-states.

In the next section I recall an earlier important encounter between the two on the subject of the origins of capitalism to remind us about the chief differences between them. In the third section, I review the second encounter on the subject of the 'long downturn' in the US-led world economy and US hegemonic decline. In the fourth section I examine the anomalies of US hegemony more closely outlining in each case the alternative conceptualization of the evolution of the world order which enables us to make sense of them.

I Marxism and WST: The First Encounter

Despite their kinship, the theoretical relationship between WST and Marxism has been intermittent. For the most part, the two have ploughed their own separate furrows. A nascent separation between the two traditions can be traced back to the debate between Maurice Dobb and Paul Sweezy on the transition from feudalism to capitalism, the former focussing on relations of production, the latter on the expansion of the market. The first major exchange between the two occurred in 1977 when Robert Brenner produced a critique of WST and the related tradition of dependency theory from a point of view he considered more consistently Marxist.[15] The debate revolved around the definition of capitalism and the explanation of its origins but, just as much, it was about whether or not the economies of the Third World could be called capitalist. WST and Dependency Theory, for whom imperialism and capitalism had always gone hand in hand, called them capitalist. From their point of view, capitalism, by which they meant the world market connecting the core and the periphery which has been created by

[14] By Benno Teschke, *The Myth of 1648*, London: Verso, 2003. He groups under this rubric the work of Brenner, Ellen Wood, Justin Rosenberg and his own.

[15] Robert Brenner, 'The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism', *New Left Review* 104, July-August 1977.

‘capitalism’ beginning with the first voyages of exploration 5 centuries ago, created development in core countries and underdevelopment in the periphery. There was also the strong suggestion that this was inevitable, that capitalism could not be expected to develop the third world and the only solution was socialism. The thurst of dependency theory, in particular, was to explore the ways – unequal trade, FDI etc. – in which this underdevelopment was created.

WST’s conception of a 500-year-old world capitalist economy assumed that both the imperial motivations and the colonial transformations it produced were capitalist. On the first matter, Marxists pointed out early on that modern imperialism – Iberian imperialism in the Americas or the territorial expansion in the Baltic and Eastern Europe were in the first instance feudal imperialisms, governed by the expanding consumption requirements of lords.[16] From the 19th century onwards, with at least one capitalist state established in Europe, did imperialism take on specifically capitalist motives.

Even a capitalist imperialism did not, however, automatically imply capitalism in the colonies. Brenner, like some other Marxists, questioned this assumption and asked whether the Third World was underdeveloped because it was capitalist or because capitalist relations of production had not developed there. In his critique, Brenner called WST ‘Neo-Smithian’ for its tendency to equate market relations and commodification with capitalism. For Brenner, capitalism was not a matter of the market, and even the existence of capital, which could and did exist in a variety of other modes of production (without however subsuming them under its rule). Relations of production defined capitalism: without the existence of commodified labour, free wage labour, there was no capitalism. Only commodified labour compelled the production of relative surplus value and produced the associated productivity gains which were the distinctive feature of capitalism in contrast to all other known forms of surplus extraction.

> Only where labour had been separated from possession of the means of production, and where labourers have been emancipated from any direct relation of domination (such as slavery or serfdom), are both capital and labour ‘free’ to make *possible* their combination at the highest possible level of technology. Only where they are free, will such a combination appear *feasible* and *desirable*. Only where they are free, will such a combination be *necessitated*. Only under conditions of free wage labour will the individual producing units (combining labour power and the means of production) be forced to sell in order to buy, to buy in order to survive and reproduce, and ultimately to expand and innovate in order to maintain this position in relationship to other competing productive units. Only under such a system, where both capital and labour power are thus commodities – and which was therefore called by Marx ‘generalized commodity production’ – is there the necessity of producing at the ‘socially necessary’ labour time in order to survive, and to surpass the level of productivity to ensure continued survival.[17]

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[16] Pierre Vilar, ‘The Age of Don Quixote’, *New Left Review* I/68, July-August 1971; Marian Malowist, ‘The Economic and Social Development of the Baltic Countries from the 15th to the 17th Centuries’ *Economic History Review*, vol. 12, 1959.
[17] OCD, p. 32

Brenner's emphasis on the possibility of relative surplus value in capitalism was important because the double-sidedness of the Marxist understanding of capitalism rests on it. It is because capitalism generates a prodigious productive dynamic, drastically reducing socially necessary labour for the production and reproduction of life, that it has some redeeming value for universal human emancipation. Without it, capitalism would be quite probably worse than other forms of surplus extraction given its inhuman work routines, social relationships and environmental destruction. It would be nothing but the organization of human alienation from self, society and nature on a historically unprecedented scale.

However, while capitalism at its best is productive of relative surplus value, capitalism does not appear everywhere at its best. On the one hand, forms of capitalism based on the extraction of absolute surplus value through forms of labour control other than commodified labour were created under the impact of capitalist expansion at the peripheries of the world system of capitalism. As Jairus Banaji argued in his contribution to this set of debates, Marx also spoke of forms of *capitalist* exploitation where the surplus value extracted may be something other than profit, such as rent or interest: 'We have here the whole of capitalist production without its advantages.'[18] It was a case in which a capitalist enterprise subsumes under its control productive units whose labour processes and accounting systems remain non-capitalist and 'simple reproduction', often even reduced reproduction forms the 'limit of exploitation'.[19] Lenin had taken pains to distinguish these forms of production as capitalist in his debates against the Narodniks who saw them as pristine forms of peasant production. These forms of surplus value extraction are not merely of antiquarian or exotic interest: they may be of relevance in the west in understanding the relationships of many farms to agribusiness or franchisees to franchisers in the retail and restaurant businesses.

On the other hand, contrary Brenner's expectation that the real subsumption of labour by capital which is productive of relative surplus value '*arises spontaneously on the basis of the formal subsumption of labour under capital*',[20] there are far too many instances of capitalist production under low-technology, low-wage conditions which last too long for it to be humanly meaningful to insist that in the long run the dynamic of relative surplus value will spontaneously emerge. In that long run, as both Keynes and E.P. Thompson said in their different ways, entire generations have died.

Brenner's critique of WST was productive of the Modes of Production[21] debate which it is not our purpose to explore here. However, the chief traits of the two traditions which continue to be relevant emerged clearly in this encounter. First, Marxism tended to be Eurocentric in its understanding of capitalism and WST focussed more on the South. Secondly, Marxism tended to keep its focus on the centrality of the productive dynamic of capitalism while WST gave it an intellectual shrug of the shoulders, perhaps because it seem hardly the point to the vast majority of the labouring population of the world for which capitalism seems to have brought only its costs and none of its supposed advantages.[22]

[18] Banaji, p. 35-6, quoting Marx, *Theories of Surplus Value*, Pt. 3, p. 165.
[19] Banaji, p. 33.
[20] OCD, p.31
[21] refs: Brenner, Laclau, Banaji etc…
[22] This difference between WST and Marxism was perhaps more relevant to an understanding of core-periphery relationships when manufacturing was more completely confined to the core. Today it may have

Both traditions tended to ignore the centrality of national states in creating the conditions in which the dynamic of relative surplus value would emerge, Brenner because he assumed that the emergence of this dynamic was spontaneous once labour had been commodified and WST, more simply, because it simply did not pose the question. The extensive modes of production debate remained rather disconnected from that on national development models, though the work of Colin Leys on Africa attempted, at least, to form a bridge between them[23] by raising the question of the conditions in which national developmental states may be expect to emerge.

II The Economics of the Long Downturn

The next major encounter between WST and Marxism came in the form of a response, this time by Arrighi, to Robert Brenner's account of the economics of the 'long downturn' in the US-led world economy dating back to the late 1960s. Brenner's argument, very briefly stated, ran as follows: Brushing aside the popular explanation that the 'long downturn' – declining manufacturing profitability and slower growth – was a result of the increased power of labour to demand and get higher wages, squeezing profits, Brenner argued that it was a result of declining manufacturing profitability which resulted in the overcapacity and overproduction caused be the recovery of Western Europe and Japan.

> [A]side from the increased growth of the costs of raw materials, the fall in G-7 aggregate profitability in manufacturing was determined entirely by a fall in the nominal output-capital ratio. Since what lay behind that fall was the inability of output prices to keep up with the growth of capital stock prices, it seem reasonable at least to advance the hypothesis that what caused a good part of the decline was … the inability of manufacturers to mark up sufficiently over costs due to international manufacturing overcapacity and overproduction.[24]

He argues further that the long downturn persisted over decades essentially because the scale of the 'shakeout' of manufacturing capacity which would have been necessary to restore profitability could not be countenanced by businesses and governments. Existing firms resisted exit for one or more of several reasons: because of their 'intangible assets' in technology, market information and supplier and market relationships, because they were able to negotiate new understanding with bankers and stock-holders, because they faced difficulties in shedding excess workers or because they faced barriers entering new lines of production in a climate where low profit growth

come to matter less given three developments: a) the relative shrinkage of the industrial sector and the expansion of services, with their legendary resistance to improvements in labour productivity (see Leys, MDP), even in the advanced in capitalist countries b) the expansion of manufacturing in the third world (That it seems to have happened without noticeable income improvements may not be a situation which lasts forever, particularly if the West's ability to extra-economically control what counts as the most 'advanced' product whether through the adjudication of taste or through patents and intellectual property rights is challenged and c) the huge machinery of surplus transfer form the South to the West through the mechanism of debt.

[23] Kenya debate and then book on African bourgeoisie.

[24] EGT, p. 136.

meant that ‘aggregate demand grew more slowly’[25]. It was this industrial climate which led to a ballooning of investment in the FIRE sector.[26] To make things worse, there was also the phenomenon of the entry of low-cost manufacturers from East and South-East Asia in particular. ‘Too little exit’ and ‘too much entry’ ensured the persistence of the long downturn.

The monetarist counterrevolution in the US and the UK threatened the sort of shakeout of manufacturing capacity which might have restored profitability. However, in the US at least, it was reversed early and demand was buoyed up by the record budget deficits of Reagan’s ‘military Keynesianism’. With credit restrictions also eased, debt incurred by corporations and consumers as well as by governments ballooned, maintaining demand and capacity utilization. It also, however, prevented the much-needed shakeout. The ‘slaughtering of capital values’ could only be achieved through depression and both business and government elites preferred debt expansion instead.[27] Persistent overcapacity and overproduction now needed exchange-rate management to bail out one or another manufacturing sector, as the Plaza Accord bailed out US manufacturing and the reverse Plaza Accord, the Japanese. The upturn in US manufacturing in the 1990s was, as Brenner elaborated in a later work, due to the US’s ability to drive and keep wages down.[28]

In response to Brenner’s analyses of the global turbulence produced by ‘long dowunturn’ in the world economy[29], Giovanni Arrighi produced a sympathetic critique and a ‘recasting of Brenner’s argument within a broader social and political perspective’.[30] The critique rested on three main grounds. Firstly, Arrighi contested Brenner’s claim that ‘horizontal’ ‘inter-capitalist’ competition rather than ‘vertical’ class struggle between labour and capital was responsible for the long downturn. Both were involved. Secondly, he criticised Brenner for leaving out of account the role of the North-South struggle in causing the long downturn, claiming that it was arguably the predominant factor. The costs of ‘the power struggle in which the US government sought to contain, through the use of force, the joint challenge of nationalism and communism in the Third World’ of which the war in Vietnam was the signal event and which included ‘those programmes aimed at stemming the tide of domestic opposition’ ‘not only contributed to the profit squeeze but were the most fundamental cause of the collapse of the Bretton Woods regime of fixed exchange rates and the massive devaluation of the US dollar that ensued.’[31] Finally, Arrighi argued that Brenner’s exclusive focus on manufacturing was not only unjustified given the increasing role of finance in the US and world economies, it also prevented him from seeing that profitability crises in commodity production sectors lead to financialization as a ‘rational response’.[32]

Brenner’s account already incorporated not only the economics but the politics of the long downturn in important respects. Arrighi’s recasting of Brenner’s argument

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[25] EGT. P. 148.
[26] EGT. P. 149.
[27] EGT, pp. 151-2.
[28] B&B
[29] In his *The Economics of Global Turbulence*, Special Issue of *New Left Review*, I/229, 1998 and *The Boom and the Bubble* (London: Verso, 2002)
[30] The Social and Political Economy of Global Turbulence’, *New Left Review* 20 (second series), March-April 2003, p. 56.
[31] SPEGT, p. 42.
[32] SPEGT, p. 49.

served to put it in a wider frame, not only about the US-led world economy but about the US-led world order. However, his critique was only partially successful.

Vertical or Horizontal? – or Diagonal?

Arrighi's first criticism is important and, it seems to me, an important correction to Brenner's dismissal of the 'wage push – profit squeeze' argument. While Brenner is correct to emphasise the 'horizontal' pressures of inter-capitalist competition, and this is the distinctive contribution of his work, it does not seem correct to ignore the 'vertical' pressures of labour entirely. Given the volume of writing on 'cost-push inflation', the 'pay explosion'[33], the critical role of labour militancy of the 1960s and 1970s in producing the New Right which made the repression of labour central to its project and the fact that it was the success of this project in the US which, on Brenner's own account, made the US recoveries of the past 2 decades possible[34] it would have been a great surprise of these developments had played no role in the onset of the long downturn. Brenner's argument was just too counter-intuitive.

However, Arrighi's own attempt to dismiss Brenner's introduction of the 'horizontal' argument entirely is equally problematic. He states that Brenner provides no measure or indicator of his 'overcapacity and overproduction' while other indicators, such as those offered by Anwar Shaikh for capacity utilization, show fluctuations but no decrease in capacity utilization as Brenner's argument might lead one to expect. According to Arrighi, this shows that rather than any defense of sunk capital, the response of capital (including manufacturing capital) was to financialise.

> Confronted with heightened international competition (especially in trade-intensive sectors like manufacturing), higher cost incumbent firms responded to falling returns by diverting a growing proportion of their incoming cash flows from investment in fixed capital and commodities to liquidity and accumulation through financial channels.[35]

However, it is not clear to this reader that financialization is an *alternative* to Brenner's argument. As already noted, Brenner's case is fully congnizant of the fact that financialization was a response to low manufacturing profitability, even id he did not examine its details. Nor, in truth, does Arrighi really dismiss the horizontal argument: as we shall see in the discussion about the role of the South below, it played a role in the long downturn in that it was an expected cost of the Cold War strategy of the US. It is far more plausible if a case is made that Arrighi's account of vertical pressures complements Brenner's of horizontal ones by filling in more of the picture.

For Arrighi's attempt to tie Brenner down to an indicator or measure of overcapacity and overproduction, and in particular to that of capacity utilization in the US economy alone is misguided. Brenner's understanding of overcapacity and overproduction refers to manufacturing in all three countries he examines. It is part of his historical argument about the reconstruction of the two poles of accumulation in the

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[33] See in particular Andrew Glyn, *Capitalism Unleashed*, XXXX
[34] B&B
[35] SPEGT, p. 49.

world economy to rival the US. The recovery of Western Europe and Japan, which the US needed to facilitate for Cold War reasons, brought excess capacity and low profitability. For Brenner, there is ‘overcapacity’ and ‘overproduction’ when ‘there is insufficient demand to allow higher-cost firms to maintain their former rates of profit’ obliging these firms ‘to cease using some of their means of production and … make use of the rest only by lowering their prices and thus their profitability. There is over-capacity and over-production, *with respect to the hitherto-existing profit rate*.’[36] Brenner’s measure of overcapacity and overproduction is relative to a given level of demand and a given rate of profit. It is also wrong to collapse this into the narrower notion of capacity utilization, not least because this does not take into account retired capacity. This is particularly significant in that Brenner is not arguing that there was no ‘exit’, only that there was ‘too little exit’. Figures for capacity utilization only show that fluctuations in businesses’ tolerance for idle installed capacity showed no significant trends, not that there was not overcapacity relative to demand which as evidenced by price competition and falling profit rates, both of which Arrighi did not contest. Idle capacity can be tolerated because a generally buoyant market can be expected to recover from a particular downswing or because firms cling to their market shares in the hope that other firms will be driven out of the market, rather them they, in a desperate situation. These are two very different types of idle capacity.

The Role of the South

The most salutary feature of Arrighi’s recasting of Brenner’s argument in a ‘social and political perspective’ was that it aimed to give the South, in particular the US relationship with it, the centrality in the making of the ‘long downturn’ it deserved. How successful it is in achieving this aim remains to be seen, however.

Arrighi criticised Brenner’s focus on the core countries, and within them on the US, Germany and Japan, because their combined share of the world’s, and of the leading capitalist countries’, economies is exaggerated by Brenner and because the South’s share of both manufacturing and manufacturing exports – Brenner’s putative focus – has been growing, the latter faster than the former.[37] However, Brenner did acknowledge the role of the South, in particular East and South East Asian industrializers, in contributing to the long downturn through their entry as low cost competitors.[38]

More broadly, Arrighi objects to ‘the virtual eviction of world politics from the analysis of capitalist dynamics’. Its dynamics, Cold War and beyond, centrally shaped the interaction of the three centres of capitalist accumulation themselves. While acknowledging this, Brenner, according to Arrighi, ignores the fact that ‘The crisis of profitability that marked the transition from the long boom to the long downturn … [was] deeply affected by the parallel crisis of American hegemony which ensued from the escalation of the Vietnam war and the eventual US defeat.’[39] However Arrighi does not show how this is the case, only that US hegemony, which is not the object of Brenner’s analysis, was challenged from the South and that the costs of maintaining it resulted in

[36] EGT, p. 25-6
[37] The fact that manufacturing exports have been growing faster than manufacturing underlines the dependency of southern manufacturers on northern markets.
[38] EGT, pp. 149-50.
[39] SPGET, p. 41.

the collapse of the gold-dollar exchange standard. While the widening of perspective is a legitimate part of Arrighi's recasting of Brenner's argument, it is not a legitimate basis for a critique of Brenner. While declining profitability and competitiveness did make the maintenance of US hegemony difficult, Arrighi does not make the case that the difficulties of US hegemony in Vietnam caused, in any way, the crisis of profitability except in a vague reference to 'programmes aimed at stemming the tide of domestic opposition' to the war.[40]

Rather than any account of the role of the South in causing the crisis of profitability larger than that already offered by Brenner, Arrighi provides a fuller discussion of the effects of the long downturn on the US's hegemony and of US actions in attempting to shore it up. In Arrighi's wider view on hegemony, rather than on growth and competitiveness, the catching up of the US's capitalist rivals was a contradiction which lay within the Cold War project, but one which 'anticipated' and 'unavoidable'. Its real goal, however, was 'the containment of communism and the taming of nationalism' and through them, the 'consolidation of US hegemony'.[41] Arrighi's intertwining of the imperial with the economic logic can be briefly outlined. Increased liquidity preference of investors due to the crisis of profitability led to a ballooning of Eurodollar deposits. These became the *masse de manoeuvre* for speculative attacks on the US dollar which was deemed overvalued in light of loss of competitiveness and the burdens of the war in Vietnam. In these circumstances, in contrast to UK hegemony, US options were limited. In incurring the costs of imperialism, the UK had access to colonial armies and colonial financial reserves.

> *In a post-colonial world, no such blatant coercion was available* [emphasis added]. The United States faced the stark choice of either balancing its trade and current-accounts deficit through a drastic downsizing of its national economy and expenditures abroad, or alienating a growing share of its future income to foreign lenders. The choice of an inflationary strategy of crisis management was not dictated solely by the social and political impossibility of subjecting the American economy to a drastic downsizing, or by the relief from foreign competitive pressures that the strategy could bring to US manufacturers. It was also a more or less conscious attempt *not* to choose between the two equally unpalatable alternatives.[42]

The result was the collapse of Bretton Woods as the dollar-gold link was broken and, soon thereafter, fixed exchange rates could no longer be maintained. However, the lax monetary policies which the US pursued in the 1970s in an attempt to revive manufacturing, seemed to pit the interests of preserving US manufacturing power against that of its world hegemony. As private actors got into the game of producing world money and credit the uncertainties, particularly exchange rate uncertainties for investors rose, third world governments sought better commodity prices and, also given lax US

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[40] SPGET, p. 42.
[41] SPEGT, p. 60.
[42] SPGET, p. 46.

monetary policies, capital became a more or less free good, releasing third world countries form balance of payments constraints.[43]

This was the situation to which the monetarist counterrevolution was the 'pragmatic response'.[44] While it temporarily deepened rather than alleviated the crisis of profitability in the US, it 'reversed – beyond the rosiest expectations of its perpetrators – the precipitous decline in US world power of the preceding fifteen years.'[45] It did this by a 'massive rerouting of global capital flows towards the United States which, while unsustainable in the long run, allowed the US, for the next two decades, to tame the South, to impose on it the rigors of competition and to practice 'Keynesianism' at home to revive its own and the world's economies.[46]

As we shall see below, in accounting for the role of the South, Arrighi did not go far enough, perhaps because his own analysis pointed in contradictory directions on two key themes: Firstly, although he sought to affirm the importance of the economic role of the south, he focused only on the 'top tier' of accumulation. Secondly, although he affirmed the importance of decolonization in the contrasting choices facing the UK and the US, he did not reconcile its importance with the theoretical assumption of imperialism or hegemony under a single power.

Overcapacity or Financialization?

Arrighi suggests that financialization is an alternative explanation of the crisis. Although to an extent manufacturing firms did react to the crisis of profitability, as Brenner argues, by defending their sunk capital, 'the predominant response was, in capitalist terms, far more rational': financialization and an increase in liquidity as 'a defensive or offensive weapon in the escalating competitive struggle, both within the particular industry or sphere of economic activity … and outside it.

> For liquidity enables enterprises not just to escape the 'slaughtering of capital values' which, sooner or later, ensues from the over-accumulation of capital and the intensification of competition in old and new lines of business, but also to take over at bargain prices the assets, customers and suppliers of the less prudent and 'irrationally exuberant' enterprises that continued to sink their incoming cash flows into fixed capital and commodities.[47]

But Brenner himself notes this trend toward financialization. While Brenner's focus is indeed on manufacturing, financialization is not absent from his account. It figures as an effect of reduced manufacturing profitability and, in the form of debt, as the mechanism which made the long downturn persist. And it figures, more centrally, in his analysis of the 'boom' in US manufacturing since the 1990s and the bubble economy which accompanied it.

The real problem is that this is not enough for Arrighi but for reasons which are not clear. Arrighi regards the Marxist, and Brenner's, focus on manufacturing as nothing

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[43] SPEGT, pp. 63-4.
[44] SPGET, p. 46.
[45] SPGET, p. 46.
[46] SPGET, pp. 53-5.
[47] SPEGT, p. 50.

but a hobby-horse: 'The theoretical and historical identification of capitalism with *industrial* capitalism appears to be for him – as for most social scientists, Marxist and non-Marxist alike – an article of faith which requires no justification.'[48] For Arrighi, the focus on manufacturing cannot be justified because of its shrinking size. Brenner's claim that manufacturing retains a sizeable share of non-financial corporate profits does not convince Arrighi: he asks why financial sector profits are not relevant. He notes:

> As Greta Krippner has shown, on the basis of a thorough analysis of the available evidence, not only had the share of total US corporate profits accounted for by finance, insurance and real estate (FIRE) in the 1980s nearly caught up with and, in the 1990s, surpassed the share accounted for by manufacturing; more important, in the 1970s and 1980s *non-financial firms themselves* sharply increased their investment in financial assets relative to that in plant and equipment, and became increasingly dependent on financial sources of revenue and profit relative to that earned from productive activities. Particularly significant is Krippner's finding that manufacturing not only dominates but *leads* this trend towards the 'financialization' of the non-financial economy.[49]

WST in general and Arrighi in particular do distinguish between the material and financial forms of accumulation (M-C-M' versus M-M'), and even regard the latter as ultimately unsustainable in that phases of financial accumulation mark the 'autumn' of a given phase of expansion of the world capitalist economy

> Economically, such [financial] expansions systematically divert purchasing power from demand-creating investment in commodities (including labour power) to hoarding and speculation, thereby exacerbating realization problems. Politically, they tend to be associated with the emergence of new configurations of power, which undermine the capacity of the incumbent hegemonic state to turn to its advantage the system-wide intensification of competition. And socially, the massive redistribution of rewards and the social dislocations entailed by financial expansions rend to provoke movements of resistance and rebellion among subordinate groups and strata, whose established ways of life are coming under attack. [50]

However, there is a rather facile quality in this. There is no attempt to understand and problematise, theoretically, the relationship between the two. It would appear that the negative 'autumnal' connotation of phases of financial expansion is a mere 'empirical' generalization.

While Brenner does not explicitly justify his focus on manufacturing, nor does Arrighi justify his belief that financial accumulation can be a substitute for productive

[48] SPEGT, p. 47.
[49] SPEGT, p. 48. Citing Greta Krippner, 'What is Financialization?', Paper presented at the American Sociological Association Meeting, Chicago, 16-19 August 2002.
[50] SPEGT, p. 68.

accumulation in any sustainable fashion. Indeed, if anything, his own assumption, as we have seen, is that it is usually not, though he does not give any theoretical reasons.

III The Anomalies

Except for correcting Brenner on the role of vertical pressures on manufacturing profitability, Arrighi's critique of Brenner is largely unsuccessful, even though his re-casting of Brenner's argument within a wider social and political perspective produces a masterly synthesis. In the course of it, he points to the three anomalies of US hegemony which, by his own account, sit uneasily with this overall conceptualization of the '500-year' evolution of the world capitalist system. These anomalies point, I would argue, to an alternative reconstruction of evolution of world capitalism, one in which the onset of *industrial capitalism* does indeed constitute a fundamental break, precisely what, as we have seen, he would deny. The US hegemony ultimate failure, its state-organization of world money and its debtor status in the current phase of financialization require placing production, the relations of production and the sorts of nation-states which emerge on their basis at the centre of any narrative of the development of world capitalism.

Failed US Hegemony

The failure of US hegemony over 20th century world capitalism calls for a distinction between the period before the onset of industrialism and that following it, or what comes to the same thing, for a definition of capitalism based on productive relations and the state structures which arose on their basis. The UK was the world's first state based on capitalist *production*, initially in agriculture, itself the result, as Brenner has argued, of a change in the relations of power in the class struggle between peasants and lords. The capitalist state, thereafter, was able to foster the industrial revolution on the basis of protectionist policies not 'free trade'. [51] While it lasted, its hegemony – its ability to organise world capitalism's productive expansion, protection and money – was based on its overwhelming productive superiority. This superiority was, however, based on its industrial priority, a privilege which can only be enjoyed once in the history of industrial capitalism: rather than other industrial capitalist manufacturers, it had only pre-industrial manufactures to compete with, which it did successfully.[52]

However, the productive expansion of capitalism under its hegemony did not merely take the form of a seamless expansion of industrial production under capitalist auspices in other parts of the world. The expansion of capitalism from the 19th century onwards was about the linked spread of industrial *production* and *nation-states*, both of which Arrighi would de-emphasise. Indeed, the question of why a universalising force like capitalism went hand in hand with the rise of a system of particular and particularising nation-states, and how they served, in turn, as the agents of capitalism's

[51] Ha-Joon Chang, *Kicking Away the Ladder*. For most other countries, agrarian capitalism was to follow, not precede, the onset of industrial capitalism.

[52] The literature on British relative decline is based on the idea that the British industrial revolution was the result of more or less free trade policies which made the British state uniquely unable to compete once protectionist and developmentalist 'late industrializers' arrived on the world market. Clearly this account needs to be revised to account both for the role of Empire and that of the protection and developmentalism of the 18th and 19th century British state.Andrew Gamble, *Britain in Decline*, Eric Hobsbawn, *Industry and Empire*, Colin Leys, *Politics in Britain*, Perry Anderson, 'The Origins of the Present Crisis' and 'Figures of Descent'.

further spread - how their success or failure in creating the institutional conditions for the establishment of capitalist relations of production was a key factor in the development of capitalism has rarely been asked. Once industrial capitalism got under way in Britain, it exposed the rest of the world, through the mechanism of the market, not only to economic and competitive pressure but also to political pressure. As Tom Nairn had seen it, nation-states were central to capitalism's spread around the world. Their success or failure in creating the institutional conditions for the establishment of capitalist relations of production determined capitalism's geography and its history. Nairn saw nation states and nationalisms as results of the fact that capitalism's development was 'combined and uneven', releasing the forces of nationalism and nation-states.[53] Taking the world as a whole, the system of sovereign (nation) states appeared as the geo-political counterpart of capitalism, maturing in tandem with it.[54]

> *Contra* Marx and Engels in *The Communist Manifesto*, the expansion of capitalism was not an *economic* process in which the transnationalising forces of the market or civil society surreptitiously penetrated pre-capitalist states, driven by the logic of cheap commodities what eventually perfected a universal world market. It was a *political* and, *a fortiori*, *geopolitical* process in which pre-capitalist state classes had to design counterstrategies of reproduction to defend their position in an international environment which put them at an economic *and* coercive disadvantage. More often than not, it was heavy artillery that battered down pre-capitalist walls, and the construction and reconstruction of these walls required new state strategies of modernization.[55]

While capitalism needed the world market produced by feudal imperialism to emerge, it soon changed the dynamics of that imperialism to specifically capitalist ones. While regions too weak economically and politically to withstand the pressures of the industrializing world became colonies, some others escaped that fate to emerge as nation-states. With the onset of industrialism, the rise of the international order took on a distinctively capitalist dynamic whose unfolding over the next several centuries resulted in the global generalization of the nation-states system.

> [I]nternational relations in nineteenth century Europe were largely about the management of the modernizing pressure created by the new British state-society complex, which put its European neighbours at a *competitive and economic comparative disadvantage*. This forced state classes to design counter-strategies that led to a series of 'revolutions from above' – the introduction of capitalism.[56]

New capitalist industrial powers, having completed their process of nation-state formation, were powerful enough to resist UK free trade and used anti-free trade policies

[53] T Nairn, *The Break-up of Britain*, London: Verso, 1978.
[54] J Rosenberg, *The Empire of Civil Society*, London: Verso, 1994.
[55] Teschke, *The Myth of 1648,* p. 265.
[56] Teschke, *The Myth of 1648*, p. 12.

to protect and foster their own industry.[57] This, combined with the fact that the UK's own industrial revolution had been based on protection,[58] goes to demonstrate the extent to which the onset of industrial capitalism – and capitalism in the sense of capitalist relations of *production* is so closely bound up with the emergence of a particular kind of state. The 'late developers' soon began to compete with the UK in world markets, and around 1870, this hegemony began its decline. Its vast formal colonial empire, while it played a crucial role in prolonging it beyond what would have been possible without it, also prompted the other successful industrialisers to seek formal colonial empires of their own. The First World War was the outcome of this inter-imperialist competition.

In the course of the 30 years crisis, the US emerged from among a bevy of potential successor powers, to exercise a hegemony over the world capitalist order as powerful as the UK's had been. However, in retrospect, it too turned out to be exceptional. It could not last beyond a couple of decades. For the productive superiority which the US came to enjoy at the end of the Second World War was in its turn also a product of exceptional circumstances. Continential size (or internal colonialism) the 'natural protection' of distance from the other main centres of accumulation had brought it a long way already by 1914. However, key to its overwhelming productive superiority to the extent of account for half of world production was the destruction caused by the world wars in Europe and Asia. What was not clear in 1950, however, was that this superiority was already under siege by the forces of nationalism and Communism, itself a strong form of national developmentalism.[59]

US hegemony as it emerged after the Second World War was truncated by the existence of Communism and challenged by the forces of nationalism.[60] Indeed, although the US was imperial from its very beginnings, having appeared as the first nation-state in an age of empires, it also inaugurated the world of nation-states. Given the extent to which the combined and uneven development of capitalism had already given rise to numerous nation-states, US imperialism was *forced* from its very beginnings as hemispheric dominance to be *a system of imperial control over independent nation-states*. By the end of the Second World War, not only had the nation-states system spread to cover all the Americas, the power of nationalism and Communism had reached such a peak that the US was forced to facilitate the recovery of its principal industrial

[57] Literature on Developmental state: F List, *The National System of Political Economy*, Fairfield, N.J.: A.M. Kelly, 1977, first published in 1841, H Carey, *The Past, the Present and the Future*, Philadelphia: Carey and Hart, 1848, A Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge MA: Belknap Press, 1962. A good overview of the literature on the developmental state can be found in H Chang, *Kicking Away the Ladder*, London: Anthem, 2004. For example, see Bruce Cumings, "The North East Asian Political Economy" in Fred Deyo (ed.) *The Political Economy of the New Asian Industrialism* , Ithaca: Cornell University Press, 1989. A later phase in this literature was an examination of the emergence of the East Asian NICs. See Stephen Haggard, *Pathways from the Periphery*, Ithaca: Cornell University Press, 1990; Robert Wade, "East Asia's Economic Success", *World Politics*, Vol. 44, January 1992; Manfred Beinefeld, "The Significance of the Newly Industrialising Countries for the Development Debate" *Studies in Political Economy*, 25 Spring 1988.

[58] Ha-Joon Chang, *Kicking Away the Ladder*

[59] Lewin, *Soviet Century*; and *Russia/USSR/Russia*. K.S. Jomo, 'Introduction' and A. K. Bagchi, 'The Developmental State Under Imperialism', both in Jomo (ed.) *Globalization under Hegemony: The Changing World Economy*, New Delhi: Oxford University Press, 2006.

[60] See R. Desai, 'The Last Empire? From Nation-Building Compulsion to Nation-Wrecking Futility And Beyond', *Third World Quarterly*, Vol. 28, no. 2, 2007.

competitors, preside over the generalization of that system across the world through their decolonization and the creation of the institutional conditions for industrialization elsewhere.

US hegemony which was established after it was qualitatively different from UK hegemony. As Arrighi notes, the US a very different type of hegemon than the UK had been – not an externalised economy but a largely self-sufficient state, presiding not over a free trade empire but a 'free enterprise' one. This already testified to the manner in which industrial capitalism had changed the terrain of what Arrighi would deem a 500-year-old world capitalist system. Even as the US sought to expand its markets world-wide, it had to accept the truncation of the capitalist world by communism. Even as it US sought to cut its industrial rivals down to size through its sponsorship of decolonization, it had to facilitate their industrial recovery. And finally, even as it sought to preserve the terms of trade between the industrial and the non-industrial world, it had to countenance a system of multilateral economic governance which facilitated autonomous industrialization there. The US empire was this, an 'empire like no other', a form of 'neo-colonialism', exercising 'soft power', or 'hegemony', an 'empire by invitation' or an 'anti-imperialist imperialism'. Thanks to the spread of the forces of nationalism, developmentalism and communism, compared to the hegemony of the UK, US hegemony was of sufficiently lower quality and degree to merit the qualifiers.

In the geo-political dynamic which witnessed joint spread of capitalism and nation-states around the world, the first set of challengers to the power of an industrial capitalist hegemonic state were themselves imperial. Their rise was comparatively meteoric in retrospect for this reason. The industrialisers who were to come later had no openings for colonialism. Nevertheless their very existence had forced the US to set of an system of multilateral economic governance which facilitated capitalist and industrial development:

> These arrangements were designed to permit national governments to manage their economies so as to maximise growth and employment. Capital was not allowed to cross frontiers without government approval, which permitted governments to determine domestic interest rates, fix the exchange rate of the national currency, and tax and spend as they saw fit to secure national economic objectives. National economic planning was seen as a natural extension of this thinking, as were domestic and international arrangements to stabilize commodity prices.[61]

While the US attempted, through financial, political and military means – dollar and gunboat diplomacy – to preserve the existing international division of labour and the terms of trade between the North and the South, it could not prevent substantial industrialization outside the traditional core of industrial capitalism. While in recent years the focus of the literature on the South has been on the disasters of the 'lost' decades since the onset of the monetarist counterrevolution, two phenomenon are worthy of note. As we have already seen, the industrialization of some parts of the South has been a major phenomenon of our time. Arrighi is perhaps too wedded to a dependency

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[61] Colin Leys, *The Rise and Fall of Development Theory*, Bloomington, Indiana: Indiana University Press, 1994, , p. 6.

perspective when he notes that this industrial convergence has not been matched by any income convergence at all. Especially when he himself notes that

> Beverly Silver has documented in great detail, the relocation of industrial activities from richer to poorer countries has more often than not led to the emergence of strong, new labour movements in the lower-wage sites of investment, rather than an unambiguous 'race to the bottom'. Although corporations were initially attracted to Third World sites – Brazil, South Africa, South Korea – because they appeared to offer a cheap and docile labour force, the subsequent expansion of capital intensive, mass-production industries created new and militant worling classes with significant disruptive power.[62]

Secondly, despite all the gruesome shortcomings of what has been called 'development' since the end of the Second World War, it has nevertheless been an epochal development. I refer here not only to the spread of industrialization around the world, but also to the slowing of the divergence between countries. In his important survey of world income inequality, Branko Milanovich comes to the following conclusion about population-weighted national inequality in per capita incomes in the pre- and post-1950 periods.

> The first was characterised by (i) strong divergence between countries, (ii) relative decline of populous countries, (iii) increasing inequality among world citizens, and (iv) decreasing within-country inequality. In the second period, after 1950, (i) the divergence among countries continued though at a slower pace, (ii) populous and poor countries started to catch up with the rich world, (iii) inequality among world citizens moved slightly up, and (iv) the overlap [between the poor of rich countries and the rich of poor countries], and perhaps within country inequalities, increased again. In other words, the features (i) and (iii) continued, but at a slower pace, while the features (ii) and (iv) reversed. In effect, it is the reversal of feature (ii) – namely, the end of India's and China's falling behind the rich world – that causes the increase in the overlap component, as some part of poor countries populations now 'mingle' with people from rich countries.[63]

This is the record of the whole period from 1950 to 2000, despite the radical reversal represented by the monetarist counterrevolution for the development of Third World countries. While much of the difference between the pre- and post-1950 periods may be attributed to the wild fluctuations in the economic fate of China since 1820, the record of India, the tortoise to China's hare, so to speak, is particularly revealing. Taking the 20th century as a whole, the *most* significant break in India's growth record was independence when, after stagnating for the first half of the 20th century, there was a clear step up in growth.

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[62] SPGET, p. 36-7. He is referring to Silver, *Forces of Labour*, chapters 2 and 3.

[63] Branko Milanovick, *Worlds Apart: Measuring International and Global Inequality*, Princeton: Princeton University Press, 2005, p. 144.

> There are two sets of growth rates for the period 1900-01 to 1946-47 based on two different estimates of national income. The Sivasubramonian estimates suggest that, in real terms, the growth in national income was 1 per cent per annum, whereas the growth in per capita income was 0.2 per cent per annum. The Maddison estimates suggest that the growth in national income was 0.8 per cent per annum, whereas the growth in per capita income was almost negligible at 0.04 percent per annum. The growth rates for the period from 1950-51 to 2004-5 provide a sharp contrast. In real terms, the growth in GDP was 4.2 percent per annum while the growth in per capita income was 2.1 per cent per annum.[64]

The reconfiguration of imperialism implied by decolonization was, then, central to the story of India's growth in the 20th century. Surplus extracted from colonies such as India, indeed pre-eminently India, had contributed to the initial accumulation that had led to the Industrial Revolution in Britain and, a century later, when her industrial supremacy began to decline, in helping her balance her payments against new rising manufacturing powers.[65] In India, they, and the whole panoply of the practices of colonialism, had meant stagnation.

Without their own colonies to exploit, the industrial capitalist development of the former colonial countries of the South has been anything but spectacular. And where it has been, as in South Korea and Taiwan, this has been mainly because the compulsions of the Cold War forced the US to grant these two 'front-line' states levels of aid, policy-freedom and access to US markets denied all other ex-colonial countries. Nevertheless, industrialization in the South has been a far more widespread phenomenon. Moreover, at worst, national independence, and the national economic management that went with it, has been a barrier to worsening inequality. To be sure, the performance of this barrier was less than optimal for most developing countries, in particular, after the monetarist counterrevolution. Nevertheless, the period as a whole also witnessed the economic rise of a number of newly industrialising countries, in Asia and Latin America in particular, whose success was attributed to national economic management of one sort or another. These developments would not have been possible without the state-sponsored creation of productive (class) relations which made possible the development of capitalism in the Brennerite sense: the implantation of the dynamic of relative surplus value.

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[64] Deepak Nayyar, 'Economic Growth in Independent India: Lumbering Elephant of Running Tiger?', *Economic and Political Weekly*, April 15 2006, pp. 1452-3. For the first half of the 20th century, he is referring to estimates contained in Angus Maddison, *Monitoring the World Economy: 1820-1992*, OECD Development Centre, Paris and S. Sivasubramonian, *The National Income of India during the Twentieth Century*, Oxford University Press, Delhi, 2000. For estimates since then, he is referring to Central Statistical Organization and Economic and Political Weekly Research Foundation, *National Accounts Statistics of India*.

[65] See Giovanni Arrighi, 'Hegemony Unravelling' I and II in *New Left Review* 32 and 33, March-April and May-June 2005; and Utsa Patnaik, "The Free Lunch: Transfers from the Tropical Colonies and Their Role in Capital Formation in Britain during the Industrial Revolution" in Jomo K.S. ed. *Globalization Under Hegemony:The Changing World Economy*, OUP, Delhi, 2006. and Prabhat Patnaik, 'Imperialism and the Diffusion of Development', Text of the Ansari Memorial Lecture, 15 March 2001, http://www.macroscan.org/anl/mar01/anl150301Imperialism_Diffusion_Development_1.htm

In this situation, the sort of overwhelming economic superiority that the UK and the US exercised was, in each case, the result of circumstances which will not be repeated. Barring unforeseen disasters such economic superiority is unlikely to be available to any power again. Even optimistic projections of the power of emerging economies such as the famous 'BRICs Report'[66] do not envisage that sort of economic superiority for China[67]. Rather than emerging any sort of new imperial power, China may well merely join a club of many substantial economic powers. One might add that since the ability to extract imperial tribute was one major factor in the economic growth of imperial powers hitherto, the absence of parts of the world to colonise since the early 20th century, limits the possibilities of such relative productive superiority through colonial domination being repeated.[68] Certainly, as Arrighi has noted, the US imperialism today is limited because it does not have its on 'India' as the UK did in the declining years of its empire, to help it finance its empire and balance its accounts with the rest of the world.[69] Finally, the inability of even the US, let alone a lesser military power, to subdue nationalist resistance, whether in Vietnam or Iraq, does not bode will for its ability engineer access to such tribute.

Private World Money?

Arrighi states that in contrast to the systems of world money under previous hegemonies, which were privately organised, world money under US imperialism 'became a by-product of state-making activities.'[70] Not only is this distinction a false one, since systems of world money have always been part of state and state-making activities, of sovereign debt and finance[71], Arrighi's theoretical structure does not take into account the fact that under industrial capitalism the regulation of world money was now determined by state-directed projects of *industrialization*. This posed qualitatively new problems for the organization of world money because credit and debt were now bound up intimately with productive accumulation. Both UK and US organization of world money rested, ultimately, not on their stocks of gold but on their productive superiority. While gold remained, and remains, a means of payment of last resort, the system rested much more squarely on the direction and velocity, the momentum, of world trade. What kept other countries willing to hold Sterling or the dollar was that, or enough other agents within the world system, could always be expected to want it to purchase UK or US goods or goods produced by others who were willing to denominate them in these

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[66] D Wilson and R Purushottaman, 'Dreaming with BRICs: The Path to 2050' Goldman Sachs Global Economics Paper No. 99.

[67] And the BRICs Report does not take into account the fact that serious questions have been raised about the validity of Chinese growth statistics which most international agencies seem to accept at face value. See A Maddison, 'Chinese Economic Performance in the Long Run', Paris: OECD, 1998. China's economy is still substantially non-market and the comparability of its indices with those of market economies is a fundamental issue.

[68] See R Desai, 'From National Bourgeoisies to Rogues, Failures and Bullies: the Contradictions of 21st century imperialism and the unravelling of the Third World', *Third World Quarterly*, Vol. 25, no. 1, 2004, pp. 169-185.

[69] G Arrighi, 'The Social and Political Economy of Global Trubulence', *New Left Review*, II/20, 2003.

[70] LTC, p. 278.

[71] Elmar Altvater, *The Future of the Market: An Essay on the Regulation of Money and Nature after the Collapse of 'Actually Existing Socialism'*, Tr. Patrick Camiller, London: Verso, 1993.

currencies, effectively sell goods in these currencies because they needed them or could reasonably hope that their trading partners needed them. The decline in productive superiority in each case, when it came, threw in doubt this logic behind the world acceptance of Sterling or the dollar and generated the financial disorganization in which each hegemony ended.

Marcello De Cecco argued, contrary to the myth about the self-regulating nature of a gold standard in the 19th century, that it, or rather the gold exchange standard, was state-managed. Particularly with the rise of new industrial powers and the onset of the Second Industrial Revolution, with its voracious appetite for capital, the world was clearly divided into industrial powers and the rest of the mostly colonial world. The aim of monetary management was to regulate their competition and maintain their status against the non-industrial ones. Although many countries adopted some version of the gold standard between 1870 and 1914,

> In none of the cases … did those who implemented monetary reform have the slightest intention of linking their countries to an international monetary system which would then automatically produce a kind of international economic meritocracy, based on differences in prices and interest rates among the various nations. … The various governments adopted such economic policies as they deemed would best serve the interest of the ruling classes. They favoured fixed exchange rates when they were expedient and progressive devaluation when it appeared possible. Nor were they afraid to change course whenever they felt it was necessary. Moreover, uncertain and even downright self-contradictory economic policies were adopted – as they often are nowadays. It would therefore be misleading to postulate any important qualitative differences between the monetary policies of the period under review and those of our own time.[72]

What was at stake in these monetary reforms and adjustment, at least for the more successful national developmental industrialising states was the preservation of their industrial and, where applicable, as in the US, agricultural, in short, productive, advantages against each other and, just as importantly, over the colonies and tropical agricultural products. The latter was accomplished as much by maintaining price structures which discriminated in favour of industrial products against tropical agricultural products as by ensuring that free competition reigned in the case of agricultural products. Trade in manufactures was managed, not least by the manipulation of exchange rates.[73]

In this management, some sort of adherence to the gold standard – minimally the maintenance of reserves so as to be able to back international payments with gold – constituted an imprimatur of financial 'good behaviour' permitting less favoured nations' access to capital for their own industrialization.[74] Political independence was crucial: whereas even the less advanced independent European countries, like Hungary, were able

[72] De Cecco, pp. 60-61.
[73] De Cecco, pp. 23 and 41.
[74] Michael Bordo and Hugh Rockoff, 'The Gold Standard as a "Good Housekeeping Seal of Approval"', *The Journal of Economic History*, Vol. 56, No. 2, pp. 389-428.

to adopt a version of the gold standard, it was denied to the colonies. And it was necessary that it should be denied: 'a stable gold exchange standard could only exist do long as the political sovereignty of the centre countries *vis-à-vis* the periphery remained unchallenged.'[75] For denominating all peripheral production in gold would lead to even further demand for gold than was being generated by the requirements of the Second Industrial Revolution and the industrial competition between the UK and the countries which were rising to challenge its industrial supremacy.

De Cecco shows in this discussion of Indian monetary management by the British government that the imposition of a sterling standard on India was part of the British management of its gold reserves in the face of declining competitiveness. India's export surpluses with the rest of the world helped Britain balance her own deficits with industrial countries. Further, India was required to deposit her reserves, built due to her export surpluses against the rest of the world, in Sterling in British banks and not convert them into gold. These reserves 'provided a large *masse de manoeuvre* which British monetary authorities could use to supplement their own reserves and to keep London the centre of the international monetary system.'[76] Indeed, the maintenance of the international gold standard by the UK had required a variety of measures for India at different times: for instance, in 1816 silver rupees were forced on India to displace 'golden pagodas' to free up gold so that the Bank of England could resume gold payments after the Napoleonic wars;[77] from 1901 onwards, India's gold reserves were transferred to London and invested in British government securities making Indian financial policy a matter of British monetary policy; finally, India's export surplus was always prevented from resulting in any increase in the value of the rupee.[78] The transfer of Indian reserves to London also kept interests lower than they may have otherwise been, effectively increasingly the supply of capital in a world voracious for it even as it starved the Indian economy, with its nascent industrialization, of it.

Clearly, the operation of the gold standard was no more private than the monetary systems of the 20th century. In the age of active developmentalism – the national promotion of industrialization – it could not have been otherwise. Keynes also pointed to another issue. Although, as De Cecco points out, Keynes remained in many ways captive of certain orthodoxies regarding the operation of the gold standard, he saw quite clearly that gold had functioned well in the 19th century as a stable basis for currency mainly because discoveries of new deposits had, exceptionally in the history of gold as money, kept pace with the expansion of production.[79] The mismatch between productive and monetary expansion without such an exceptional occurrence in the 20th century could be expected to worsen as the Second Industrial Revolution, and the Fordism that followed, expanded productivity and production to an unprecedented degree.

Moreover, the industrial world was not one which would easily accept the sort of financial discipline which even the sort of diluted gold standard which operated in the 19th and early 20th century imposed on debtors. Rather than envisage the sort of destruction of productive capacity which it might impose through the deflation implied

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[75] De Cecco, pp. 57.
[76] De Cecco, p. 61.
[77] De Cecco, p. 63.
[78] De Ceddo, pp. 72-3.
[79] See also Robert Skidelsky, *John Maynard Keynes: Fighting for Freedom, 1937-1946.* London: Viking, 2000, p. 204.

by devaluation, debtor countries with the power to do so tended to prefer default, causing monetary instability. Keynes sought, therefore, a system in which part, at least, of the burden of adjustment to temporary balance of payments difficulties lay with creditor countries, particularly in the form of acceptance of exports from debtors.[80] The Age of Gold had to end in that of industrial capitalism and it did end.

The Bretton Woods system with the dollar pegged to gold at $35 an ounce was at least partially based on gold but this was more a matter of US government policy than any 'automatic' commodity money. The US had become a sink for gold ever since the end of the Civil War era of purely fiduciary money. People as well as the government hoarded gold. Nevertheless, in the early 20th century, two key changes moved the system of world money towards an even more purely fiduciary or state-based system of finance. As Michael Hudson has pointed out, the Great War – a great destructive enterprise of states which would dwarf the productive activity of private operators, however large – put finance in government hands to an even greater extent than before. The lead in this development was taken by the US government, which emerged as the primary creditor to the rest the world in the interwar period and again after the Second World War. It was unprecedented in the history of capitalist imperialism.

> In the case of other nations, government intervention in foreign lands generally had followed growth of private investments….The great surge of US investments [after 1919] overseas was by government, not by private investors, although this did occur, of course. It was not directed principally toward undeveloped areas rich in raw material but to…Europe…Motivation for massive US government financial claims on Europe was political in its emphasis; economics played a smaller role.[81]

This revolutionary change, unforeseen by the great writers on imperialism of the time - Hobson, Lenin or Kautsky meant that 'the world financial order grew to rest upon the dominant part in world finance not only able to be played but actually played by the government of the United States.'[82]

US political actions between the wars laid the basis on which it would emerge as the chief financial power after the Second World War. Insisting on the repayment of war debts owed to it by its allies, while at the same time protecting its markets from them, it took over many European assets, including gold before the system broke down in 1929. [83] The Great Depression which followed was the greatest collapse of economic activity seen before or since and the most proximate *general* cause of the Second World War[84]. US

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[80] Skidelsky, p. 204.

[81] M Hudson, *Superimperialism: The Origin and Fundamentals of US World Dominance*, London: Pluto Press, 2003 Second edition p. 53.

[82] M Hudson, *Superimperialism,* 2003, pp. 6-7.

[83] Hudson, *Superimperialism*, 2003, p. 66-7.

[84] As Hudson remarks 'It would be false to say that the United States provoked World War II.....It is true, however, that no act, by whatever nation, contributed more to the genesis of World War II than the intolerable and insupportable burdens which the United States deliberately imposed upon its allies of World War I and, through them, upon Germany. In essence, every American Administration, from 1917 through the Roosevelt era, employed the strategy of compelling repayment of the war debts, specifically by England, to so splinter Europe that, politically, the whole of Europe was laid open as a possible province of the United States.' *Superimperialism*, 2003, p. 112.

financial superiority was thus achieved at the cost of economic breakdown and another prolonged period of generalised warfare.[85] And it was further bolstered, in absolute as well as relative terms, during the Second World War in which the clear aim of US financial policy was to reduce the UK's financial power even more. *Therefore, the US's great financial power after 1945 rested not on production but on destruction*.

It is usual to contrast the US's financial actions after 1919, generally considered ill-thought-out, and even irresponsible, with those after 1945, when the US is generally seen to have acted to put the world's financial house in order in a judicious, even altruistic, use of its great financial power to lay the basis of a multilateral management of the world's financial affairs. In truth, the Bretton Woods institutions set up after 1945 were designed to serve the US's political interests just as much as those after 1919.

That the world's money had to now be managed thorough a political mechanism was clear to all acute observers. The questions were in whose interests it would be managed and by what means. Governments had come to figure so prominently in finance and the gold standard had been rendered obsolete by the tremendous expansion in world production. The Age of Gold had ended for another reason also: the Great War has concentrated it in the vaults of central banks – pre-eminently the Federal Reserve – never to be released even to settle matters between central banks, the preferred method being earmarking. In other words, Keynes saw no alternative to a political management of money. At Bretton Woods Keynes called for the creation of a world reserve currency cooperatively managed through a multilateral organization of nation-states in the interests of world-wide growth and national economic autonomy. His efforts succeeded only, however, in creating the appearance of multilateralism underneath which the system was designed to serve the interests of the US as its policy-makers constructed them. Rather than any international currency, the US insisted on the dollar, pegged to gold at $35 an ounce as the key currency. In doing so, it is usually seen to have placed its vast gold reserves at the service of the world, and in particular made it available as the basis of the international trade crucial to Europe's recovery. However, this also 'enabled continental Europe to service its growing debts to the United States' allowing the US to remain a creditor in good standing. Even more important, as one US senator observed, it put US gold to a use without which it would have little value.[86] Morevoer, the peg to gold was arbitrary and political, not a binding commitment. As soon as it began to act as a constraint on US imperial inclinations, as soon as they required levels of spending which exceeded US gold stocks, it was abandoned. The world was now living with political money without the pretence of a peg to gold and without having had the chance to determine the content of the politics which governed it. *De facto*, its politics were the imperial politics of the US government.

US Debt

Financialization as a diversion of capital away from productive investment and towards liquid assets as a 'rational response' of capital in times of low profitability and uncongenial investment climate is unremarkable. Of greater interest is the routing and destination of these funds and their relationship to production. In the 1950s and 1960s,

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[85]. This point is made with equal force, albeit from a very different angle, in N Ferguson, *The War of the World: Twentieth Century Conflict and the Descent of the West*, New York: Penguin Press, 2006,

[86] Quoted in Hudson, *Superimperialism*, 2003, p. 150.

international capital flowed mainly from the US to Europe and Japan and contributed to their recovery. That recovery led, as Brenner argued, to the overcapacity and overproduction which still lies at the basis of the persisting 'long downturn'. However, it also led to the diminution of the overwhelming US productive lead over the rest of the world which it has enjoyed at the end of the Second World Wars. The question of the future of the world financial order has been on the agenda since then. Early attempts to recreate a truer version of Keynes' idea of multilateral payments were quashed by the US.[87] Since then, the US has managed the world financial order to maximise its seignorage advantages. However, the contradictions which have become obvious point not to any successor hegemony but to very different configuration of world power and money.

While Arrighi explains this in terms of the power of independent nation-states to resist the sorts of financial and military levees which the UK was able to impose on her colonies, he does not explore its full implications: that the current phase of financialization and US debt represents the breakdown of a system of world money anchored to an exceptional situation of US overwhelming productive superiority which could not last.

As soon as US productive superiority began to be eroded, it was faced with the question of how to maintain its hegemony on a declining productive base in a world context of independent nation states, many of which had experienced some substantial industrialization. The initial abuse of its seniorage privileges through lax monetary policies, while it freed the US from any financial constraints and brought down the value of its debts, it also brought the value of the dollar down far enough as to deter its accumulation and, by making capital so inexpensive, freed the third world from balance of payments constraints. This was the last time the US made any attempt to revive its productive base. However, when this was reversed by the monetarist counterrevolution, it meant that the US could attract money to itself initially by contracting its productive base. Military Keynesianism combined with exchange rate management of the 2 Plaza Accords followed, creating a situation in which the growth of the major centres of capitalist accumulation could only take place at one another's expense. In the 1990s the US investment boom and the dot.com bubble briefly appeared to have reversed these trends for the world and US economies. However it was not to last.

Since the early 21st century, the aggressive unilateralism of the US has been in pursuit of yet another reason to persuade the world to hold dollars. Its basis was laid in the 1970s. The oil price increases of the time and the agreement between the US government and major OPEC countries to denominate this inflated trade in dollars. This made the US dollar effectively an oil backed currency. If the strength of the US economy would not longer suffice to persuade the rest of the world to hold dollars, the oil trade would. It is doubtful, however, that for all its military might the US will succeed in this endeavour to control the world's oil.

A final reason why the US has been able to incur its astronomical debt is that it still acts as a market of last resort for China, Japan and certain new industrial countries. However, this too is surely an unsustainable situation of a practically colonial one-directional tribute which sooner or later must come to a stop. While the US benefited from being able to attract finance, the benefits to those who provided it were not so clear:

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[87] Peter Gowan, *The Global Gamble*.

'Japan's support for the dollar was a major cause of the 15 years of deflation and low growth it endured after 1990, while lower income China used savings extracted from its impoverished citizens to finance American consumption'.[88] As Brenner has pointed out, current US consumption capacity depends on a housing bubble. That now seems on the point of bursting. While there is not obvious single alternative market for China's tearing industrial growth, it is possible that China may be forced to seek smaller ones, both within itself and in its regional neighbourhood. Already the central banks of most of the US's creditors are seeking to diversify their holdings away from US government securities.

More generally, financial globalization has only succeeded in directing capital flows to the US and resulted in none of the advantages which were advertised: the efficient flow of capital and financial stability. Rather they have produced their opposites in enabling the US to consume more than it produces and financing imperial misadventures. These latter have strengthened the forces of nationalism around the world, and not always for the good. In the context of neo-liberalism, it has often taken the form of very iniquitous growth which limits the size of markets available. At the same time, the decline of US world power contains important possibilities for the sort of collective international economic and political organization which the Bretton Woods organization only endorsed in principle but which they were too premature to develop substantially. In such a new international order *international* collective institutions may provide the services, principally international money and an international police, which the hegemon had provided hitherto. This was the substance of Keynes' vision which the eventual Bretton Woods system corrupted in setting up a world monetary order based on the dollar. Its hijacking by the US to its own interests was possible due to an exceptional productive superiority it enjoyed at the end of the Second World War. With its inevitable dimunition, it is not surprising that the idea resurfaced momentarily when the US dollar's convertibility into gold was suspended only to be crushed by the US. It may now be on the agenda again.[89] This scenario can only succeed in the long run to the extent that the neo-liberal orthodoxy is also abandoned and domestically oriented growth strategies, particularly for the larger countries, once again aim to produce the sort of equitable growth which alone can provide adequate markets for further growth in production and productivity with all their welfare implications.

[88] R. Taggart Murphy, 'East Asia's Dollars', *New Left Review* II/40, July-August 2006, p. 42.

[89] J Stiglitz, 'Can the World Economy be Saved?' *The Globe and Mail*, Toronto, October 12, 2006. See also, Thomas Palley, 'The Fallacy of the Revised Bretton Woods Hypothesis: Why Today's System is Unsustainable and Suggestions for a Replacement' Political Economy Research Institute, University of Massachusetts, Amherst, No. 114, April 2006.