

## SUPERINTENDING GLOBAL CAPITAL

**A**S IF TAKING too literally the maxim that Minerva's owl flies at twilight, it seems that the imperial nature of the American state is belatedly being acknowledged today only to announce its imminent demise—the 'unravelling' of us hegemony.<sup>1</sup> In these accounts, the military occupation of Iraq is often seen as a desperate attempt to re-impose a faltering us leadership by force of arms. What these analyses tend to ignore is the unique scope and scale of the us imperialist state, and the specific role it has played in the making of the world economy in the postwar period. An evaluation of the us's continuing capacity to shape global capitalism in the 21st century therefore requires some theorization of the imperialist state itself.<sup>2</sup>

Contemporary Marxian analyses of imperialism and its sanitized cousin, globalization, have consistently fallen short of an adequate theorization of the state. Most still rest on the assumption that the relationship of economy to state is that of base to superstructure—in which case, any elaborated theory of the state is largely unnecessary and certainly uninteresting. Other broadly leftist approaches to globalization have evaded the need for such a theorization by proclaiming the growing irrelevance of the nation-state. At one extreme, theorists of a transnational capitalist class postulate the formation of a transnational state to match the globality of capital; at the other, power is proclaimed to be decentred in a borderless world.<sup>3</sup> In both there is an underestimation of the extent to which states, rather than being the passive victims of globalization, have been its authors and enforcers. As a result, not only is capital's dependence on *many* states insufficiently acknowledged, but the pre-eminent role of the American state in the making of global capitalism is marginalized.

In order to ground an appropriate conceptual framework for understanding imperialism and globalization today, we need to begin by theorizing the capitalist state along three dimensions. The first encompasses its relation to accumulation. The separation of the political from the economic within capitalism involves a distancing of the state from direct involvement in the organization of production, investment or appropriation of the surplus; but an active state is still required to maintain the juridical, regulatory and infrastructural framework through which these operate, as well as to police capital–labour relations, manage the macro-economy and act as lender of last resort. Capitalism could not exist unless states did these things; and states are impelled to do them, by virtue of their dependence on private accumulation for their own revenues and for the material foundations of their legitimacy.

The role of the state in this respect is not merely a reactive response to contradictions emanating from the process of accumulation. Capitalist states have developed sophisticated measures for promoting and orchestrating capital accumulation, and for anticipating and limiting future problems. It is in these terms that we should conceptualize the ‘relative autonomy’ of the capitalist state: not as being autonomous from capitalist classes or the economy, but rather in having capacities to act on behalf of the system as a whole (autonomy), while their dependence on the success of overall accumulation for their own legitimacy and reproduction nevertheless leaves those capacities bounded (relative). What requires historical investigation is the precise range and character of the capacities developed by any one state.

Such investigation is impossible without addressing a second dimension of the state: the form of political rule. Here, the separation of state

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<sup>1</sup> See Giovanni Arrighi, ‘Hegemony Unravelling—I’, NLR 32, March–April 2005 and ‘Hegemony Unravelling—II’, NLR 33, May–June 2005. See also David Harvey, *The New Imperialism*, Oxford 2003.

<sup>2</sup> This essay builds on our previous work, both in these pages (‘The New Imperial State’, NLR 2, March–April 2000) and in the *Socialist Register*: see ‘Global Capitalism and American Empire’ in *The New Imperial Challenge: Socialist Register 2004*; and ‘Finance and American Empire’ in *The Empire Reloaded: Socialist Register 2005*.

<sup>3</sup> ‘The fundamental principle of Empire is that its power has no actual and localizable terrain or centre . . . the United States does not, and indeed no nation-state can today, form the centre of an imperialist project’: Michael Hardt and Antonio Negri, *Empire*, Cambridge, MA 2000, pp. 384 and xiii–xiv. On the transnational state, see most recently William Robinson, *A Theory of Global Capitalism: Production, Class and State in a Transnational World*, Baltimore, MD 2004.

from society within capitalism entails the constitutional distancing of political rule from the class structure. This also allows for the organization of class interests, and their representation vis-à-vis opposing classes and the state. One aspect of this is the establishment of the rule of law as a liberal political framework for property owners. Another, only fully asserting itself in the postwar period, is the establishment of liberal democracy as the modal form of the capitalist state.<sup>4</sup> What requires specific analysis here is the relative degree of the state's autonomy: how do linkages between societal and state actors, and the balance of class forces, bear on the state's legitimacy and shape its institutional capacities in relation to accumulation?

### *Defining capitalist imperialism*

The third dimension, implicit in the first two, is the territorial and national form of the capitalist state. Capitalism evolved through the deepening of economic linkages within particular territorial spaces; indeed, its development was inseparable from the process through which various states constructed their borders and defined modern national identities within them. Yet if the densest relations were national, international linkages were never absent. We should not merely assume an irresolvable contradiction between the international space of accumulation and the national space of states; the latter have always been players on the international economic stage. Here, we need to investigate whether a state's activity is consistent with extending the law of value and the rule of law internationally—and extending them, moreover, in ways that are mutually consistent with the actions of other states. This allows for examination of the tensions and synergies between the national-territorial form of the state and international capital accumulation, within the context of the economic, political and ideological relations between states.

With the separation of the economic from the political under capitalism, the age-old history of imperial political rule over extended territories and peoples takes on a new form; its analysis cannot be reduced simply to capital's economic tendency to expand. Instead, if we retain the understanding of imperialism as a form of extended political rule, what is properly defined as *capitalist* imperialism pertains to the role played

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<sup>4</sup> The establishment of liberal democracy has, of course, been a long and uneven historical process, not realized in a great many developing capitalist states today; China among them.

by capitalist states in the spatial extension of the law of value and of capitalist social relations. The historical interplay between the hierarchy of states and uneven capitalist development was earlier experienced, of course, through territorial expansion and colonialism. But pre-capitalist social forces played a large role in this, and international capitalist competition during the 18th, 19th and early 20th centuries was accompanied by the exclusions inherent in formal imperial rule, and the tendency, under these conditions, to inter-imperial rivalry.

What needs investigation here are the means by which the separation of the economic from the political was extended to the international level over the course of the past two centuries. This involves not only an understanding of the progressive marketization and commodification of social life, but also of the processes by which the national-territorial capitalist state, in its modal liberal-democratic form, was universalized and inscribed into the constitution of international institutions and international law by the mid-20th century. Both developments took place under the rubric of a new kind of informal imperialism, whereby particular states, in the very process of creating the political and juridical conditions for international capital accumulation by their own bourgeoisies, also took responsibility for creating the political and juridical conditions for the general extension and reproduction of capitalism internationally.

It is within this perspective that not only the history of uneven capitalist development but also the changing relations among the advanced capitalist states themselves need to be viewed. As part of the transformation from formal to informal imperialism, legal equality between nations came to mask not only the inequalities between states of the 'core and periphery', but also a new form of hierarchy established among the advanced states themselves. The process of the separation of the economic from the political at the international level, facilitating capitalism's global integration, also meant that capitalist competition would no longer necessarily be expressed as inter-imperialist rivalry as this was understood by Marxist theorists at the beginning of the 20th century. It is to the history of this rivalry that we now turn.

### *Empires past*

Though the mercantile empires of Europe's absolutist states were present at capitalism's birth, the first empire to be driven by capitalist

logic—pursuing profits through the creation of value in competitive production rather than simply through exchange, and exporting capitalist property relations to its colonies—was that of Britain.<sup>5</sup> Yet even as the 19th-century British state extended its territorial colonial empire, it was also pioneering a new type of ‘informal imperialism’: sponsoring foreign investment and bilateral trade-and-‘friendship’ treaties outside the administrative Empire, and even allowing other capitals to have access to these markets. Britain thus played the leading role in the extension of some of the key conditions for the operation of the law of value internationally, from the free-trade policy to the gold standard. Herein lay the seeds of the epochal shift from pre-capitalist territorial imperialisms to capitalist imperialism of the modern type.

That said, there was a continuing tension between the imperatives of capitalism and those of British colonialism. Even as it exported capitalist property relations to its dominions, Britain also oversaw, and in some cases even reinforced, pre-capitalist ones. Open markets hardly characterized the relationship between colonies and mother-country, and it proved difficult to win support for free trade from other capitalist powers who were trying to catch up with Britain, both by protecting their own markets and by establishing colonies. But this was only another way of saying that the British state did not have the capacity to integrate, or even block for long, the new challenges to its dominance. In other words, the form taken internationally by the separation of the economic from the political was incomplete during the great wave of capitalist globalization between the 1870s and 1920s. States primarily acted in particularist ways in relation to accumulation and political rule beyond their borders, seeking national advantages through the imposition of tariffs, control of trade routes, military intervention and, especially, imperial exclusion. The expansion of colonialism, resistance to liberal democracy as a new form of political rule and the particularism of each state’s relation to accumulation produced severe contradictions for all three dimensions of the capitalist state. Inter-imperial rivalry was the consequence.

Marxist theorizations of imperialism at the time viewed these contradictions as irresolvable. Imperialism became their term for a stage of capitalism they believed was characterized by overaccumulation, accompanied by the politicization of competition at home (via finance capital)

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<sup>5</sup> Ellen Meiksins Wood, *Empire of Capital*, London 2003, pp. 73, 100.

and abroad (through inter-imperial rivalry). Their definition of imperialism as a stage of capitalism allowed them to avoid the pitfalls of a general trans-historical theory of imperialism; yet paradoxically, once imperialism was understood in the conjunctural terms of the times, the historical was frozen into a theoretical fundamentalism that the future could not escape (the 'highest' stage of capitalism). It would be unfair to expect these theorists to have foretold the future. But a less rigid formulation, and one less impoverished in terms of its conceptualization of the state, might have left the door ajar to other possibilities.<sup>6</sup> Lenin closed the door, particularly in the debate with Kautsky, and future generations of Marxists were slow to open it again. While Kautsky at least raised the question of other outcomes, what he had in mind was limited to the diplomacy of capitalist states acting in their 'general interest'—a notion which Lenin, with some justification, saw as speculative rather than substantive. Had the theorists of imperialism, Schumpeter among them, been more historically minded, and investigated the informal 'free-trade imperialism' of the British Empire rather than defining it away through a false dichotomy between free trade and imperialism, a more promising theoretical legacy might have been bequeathed.

### *America's ascendancy*

From the 1940s, the us came to take responsibility for reversing the earlier fragmentation of the international capitalist system through the gradual creation of a new world order, characterized by liberal trade and seamless capital accumulation. This project could not have been set in motion or brought to fruition without the agency of the us state and its capacity to attenuate the tensions between the national and international requirements of other capitalist states. Something more historically distinctive was emerging than just the rise of a new power or the international extension of American capital: the American state was now acting as a self-conscious agent in the making of a truly global capitalism, overseeing the drive to universalize the law of value through the restructuring both of states themselves and of inter-state relationships.

The American empire did not appear from nowhere. In the western hemisphere, its roots go back to the territorial expansion of the republic

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<sup>6</sup> Bukharin's analysis was richer than Lenin's; but although he begins his essay by invoking 'The struggle between "national" states', his analysis of the state remains perfunctory. Nikolai Bukharin, *Imperialism and the World Economy* [1917], London 1987.

through what Jefferson called 'extensive empire and self-government'. It evolved over the 19th century through the articulation of dynamic capitalist development at home and with the Monroe Doctrine abroad. Despite Woodrow Wilson's ambitions at the end of World War I to extend to the global level the (mostly) informal imperialism which the us practised in its own hemisphere, it was only through the crucible of the Great Depression, the New Deal and World War II that the American state developed sufficient capacity to globalize its imperial reach. There was no historical precedent for a major power supporting the revival of its potential economic competitors as the us did in the postwar period, through low-interest loans, direct grants, technological assistance, favourable trading relations and the establishment of a multilateral institutional framework for international stability. This was simply beyond the ken of the old Marxist theorization of imperialism.<sup>7</sup>

At stake here was, quite simply, the internationalization of the state. This entailed capitalist states coming to accept explicit responsibility for co-ordinating the management of their domestic order so as to contribute to that of the international capitalist order as a whole. For the us, under whose aegis this co-ordination took place, this had a special meaning: it defined the American national interest in terms of the reproduction and spread of global capitalism. The us state still represented the array of forces specific to the American social formation, but inasmuch as this produced tensions with its new role these were allayed by the increasingly global accumulation strategies of dominant sections of the us capitalist class. The new role of the American state in global capitalism was clearly articulated in the secret 1950 National Security Council document, nsc-68, in terms of constructing a 'world environment in which the American system can survive and flourish . . . Even if there were no Soviet Union we would face the great problem [that] the absence of order among nations is becoming less and less tolerable.'<sup>8</sup> Half a century later,

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<sup>7</sup> As Giovanni Arrighi pointedly observed at the end of the 1970s, 'the classical body of theories of imperialism . . . had become irrelevant as outlines for interpretive accounts of world-historical events, trends and developmental tendencies since the Second World War': *The Geometry of Imperialism*, London 1978, p. 160. In this context 'imperialism', previously understood as a relationship of rivalry within the developed capitalist world that *affected* the periphery, was redefined so that the core-periphery relationship became imperialism's *essence*. Yet here, too, theorization of the state fell short, with the focus kept rather on the economic processes that generated underdevelopment.

<sup>8</sup> Quoted in William Appleman Williams, *Empire as a Way of Life*, New York 1980, p. 189.

the wording employed in Bush's 2002 'National Security Strategy' was not very different; but the project of global rule was now a matter for public proclamation.

What made America's no-name imperialism viable had much to do, of course, with its relation to accumulation in the world's leading capitalist economy; but it also rested on the legitimacy which 'American democracy' lent to the us state abroad. Liberal-democratic ideas, juridical forms and political institutions lent some credibility to the claim that even American military-imperialist interventions were about human rights, democracy and freedom. And the reproducibility, beyond the Union, of many of its administrative, legal and constitutional forms encouraged imitators, fuelling ambitions to remake other states in the American image.

This is not to say that such states became mere replicas of the us, given the variety of social structures or institutional and cultural traditions within them. Instead, what emerged was a dynamic combination that reflected the interaction of American penetration and dominance with the particularities of each nation-state. Nor did they become merely passive actors in the American empire; relative autonomy operated in relation to the internationalization of the state as well, reflecting the balance of social forces and political initiatives in each state. This allowed them to pressure the us to carry out its pre-eminent responsibilities in the management of global capitalism in ways that would be more autonomous of pressures emanating from within the American social formation. But in doing so they recognized, usually explicitly, that the us alone had the capacity to play the leading role in the expansion, protection and reproduction of capitalism. In this sense the American state was uniquely imperial.

### *New world order*

The liberal-democratic legitimation of the informal us empire has led to the common usage of the term 'hegemony', rather than imperialism. But it is dubious whether the full measure of the nature of American power since World War II can be adequately grasped by the concept of hegemony alone. Just as Gramsci's use of hegemony did not displace the concept of ruling class but rather spoke to a certain, and variable, quality of rule on the part of particular ruling classes, so the concept of



hegemony should not displace that of empire. Such a displacement has often led to the underestimation of the scope and breadth of American structural power and its capacity to reproduce its imperial status. This is seen in the tendency, especially widespread on the left, to draw hasty conclusions about the decline of American hegemony whenever the gap narrows between the us and other economies, or other elites express ideological discomfort over the style of us leadership, or when a particular military setback occurs.

Such thinking was already fairly common by the late 60s. The economic revival of the other advanced capitalist states, especially Japan and Germany, led many to suggest that the previous two decades were less a foundation for a new American world order than a temporary fix, based in the unique circumstances of the post-war period. Even those who were earlier prepared to speak of 'empire by invitation' were convinced, by the 1970s, that the us could not be called an empire at all.<sup>9</sup> Yet even as they closed the economic gap with the us, postwar Europe and Japan were becoming ever more tightly penetrated, integrated and dependent on the American empire. Crucial here was the changing nature of international capital flows. Whereas under the British empire these had overwhelmingly taken the form of portfolio investment (e.g. lending to governments for infrastructural development), the dominant capital flows were now direct foreign investment, primarily from the us.

This penetration and integration, often effected by us multinationals with the full back-up of the us state, meant that American capital now existed as a material social force *inside* a good many other social formations.<sup>10</sup> This had a more profound impact on social relations, property rights and labour relations than purely financial flows would have done, and involved direct links with local banks, suppliers and buyers. Moreover, as with trade dependence, the integrated production processes that multinational corporations spawned had the effect of restraining protectionist impulses and reinforcing pressures for free trade. Thus, beyond the Cold War political and military ties which were already shaping the range of

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<sup>9</sup> Geir Lundestad, 'Empire by Invitation? United States and Western Europe 1945–52', *Journal of Peace Research*, vol. 23, no. 3, September 1986. See his recent *United States and Western Europe since 1945*, Oxford 2004, which describes the decade of the 1990s in terms of 'renewed invitations'.

<sup>10</sup> Where this did not occur, as in Japan, imperial linkages relied rather on military and trade dependence.

options under consideration, American direct investment brought in its train American legal and consultancy firms, business schools, investment houses and accountants. The restructuring of domestic class forces and institutions that accompanied all this was, in turn, reinforced by military reliance on the us, not just for protection against Soviet or Chinese expansionism, but for the security of their capitalists' investments in much of the Third World.

### *Neoliberal turn*

The tensions between the us and the other developed capitalist states that emerged in the context of revived international competition at the end of the long boom were about renegotiating the terms and mechanisms of the post-war arrangements, not about challenging American dominance. The resolution of the economic crisis of the 1970s, moreover, depended on the decisive steps taken by the us state from the turn of the decade to reconstitute the material basis of its imperial role, via neoliberalism. The mechanisms of this programme (anti-inflationary discipline, the liberalization and expansion of markets) may have been economic, but neoliberalism was essentially a *political* strategy to shift the balance of class forces. Reforms that had been achieved by subordinate classes, reinforced in the 1960s under new democratic pressures, were now presented as barriers to accumulation. Neoliberalism involved not just reversing earlier gains, but weakening their institutional foundations; this included a shift in the hierarchy of state apparatuses in the us towards the Treasury and Federal Reserve, at the expense of the old New Deal agencies at home and the State Department abroad.

The us was not, of course, the only country to introduce neoliberal policies; but the move to do so gave it a new status. Henceforth, capitalism would operate under a 'new form of social rule' that promised not only a revival of the productive base for American dominance but a model for restoring the conditions for profits in other developed countries, and a juridical framework for integrating global capitalism. The latter involved both the 'constitutionalization of disciplinary neoliberalism' through IMF and World Bank restructuring programmes, and the increasing Americanization of commercial law.<sup>11</sup>

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<sup>11</sup> See Greg Albo, 'Contesting the New Capitalism', in David Coates, ed., *Varieties of Capitalism, Varieties of Approaches*, New York 2005; and Stephen Gill, *Power and Resistance in the New World Order*, New York 2003.

With the neoliberal reconstitution of the American empire deeply entrenched by the 1990s, it became clear that the post-war era was not just a temporary hiatus between two phases of inter-imperial rivalry. us military power remained far superior to that of any other state and, even after the collapse of the Soviet Union, the armed forces of all the other advanced capitalist countries were still tightly integrated with the us through information flows, technological agreements and the requirements of strategic co-ordination. American industrial and financial capital deepened its penetration of Europe and Asia, while European and Japanese capital largely embraced, at home and abroad, the competitive terrain defined by neoliberalism. us economic growth now once more exceeded that of Europe and Japan, while the latter's dependence on American markets, increasingly serviced via their own direct investment, further reshaped their production and consumption patterns. Japanese and German investment in the us auto industry, or General Motors' restructuring of the South Korean auto industry in a way the chaebols could not do, point to a further degree of integration.

It is in the context of this integration that the Federal Reserve began to emerge as what the *Economist* could call 'in effect, the world's central bank', in terms of providing liquidity and setting the baseline for global interest-rate changes.<sup>12</sup> The origins of this development lay in the growth of international finance during the Bretton Woods era itself, especially once Wall Street had come to dominate the new Eurodollar market in London. It was on this basis that the first 'big bang' of financial deregulation occurred in New York in the mid-70s, followed by the explosion of both domestic and international financial markets when the Volcker Shock inaugurated the neoliberal era proper. The response of the us as a *capitalist* state (representing finance to the end of strengthening American capitalism) and as an *imperial* state (looking to imbricate finance in meeting us global responsibilities) led to a painful restructuring of manufacturing in the American economy. This restructuring, together with Wall Street's increasingly deep financial markets, brought the world's savings to the us. At the same time, the growing international role of American investment banks mediated corporate mergers throughout Europe and much of Asia, further influencing their industrial and financial re-orientation. In short, the 'mutual embeddedness' of Wall Street and the American state reinforced imperial capacities.<sup>13</sup>

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<sup>12</sup> *Economist*, 3 February 2005.

<sup>13</sup> See Leonard Seabrooke, *us Power in International Finance*, New York 2001.

The development of the American empire has thus seen the extension, at the international level, of the three dimensions of the capitalist state discussed earlier—economic, political, territorial—within a specific historical form. As the domestic separation of the economic and political is extended into the international domain, it becomes possible to think in terms of an ‘informal’ empire. As other states, for the most part, take on liberal-democratic forms, and the us comes to oversee global capitalism through these states, a unique type of imperial political rule emerges.

Its four principal features may be summarized as follows. Firstly, in place of the previous fragmentation of international capitalism, the post-war development of the American empire represented a gradualist political project oriented towards the goal of an inclusivist liberal world of seamless accumulation. This was the first empire fully oriented to the making of a global capitalism. The creation of new international institutions at the time did not represent the emergence of a proto-international state; these institutions were, and remain, constituted by national states and embedded in the new American empire.

At the head of a global empire, the us state was, secondly, more than the mere agent of the particular interests of American capital; it also assumed responsibilities for the making and management of global capitalism. Nor was its ability to do this only a matter of the capacities the American state had developed internally. American multinational corporations reinforced the capacities of the state, and us imperial power was diffused through them. At the same time, the interpenetration of capital internationally undermined the autonomy of national bourgeoisies and rendered them hostile to strategies that might fundamentally challenge the American informal empire.

Thirdly, the American imperial form of rule involved structuring the options of other states’ elites in such a way that they would identify reproducing the conditions for global capital accumulation and ‘order among nations’ as necessary for their own reproduction. The densest institutional and economic linkages in the new imperialism were constructed among the developed capitalist states (including those former imperial states whose tightest links were previously with their own colonies). These states continued to benefit from the reproduction of Third World dependency, but their status within the informal American empire limited their autonomy in initiating imperial practices.

Finally, accommodation by other capitalist states to the American imperial project was mediated not only through the threat of Communism and the Cold War, but also through the quasi-Keynesian form of international economic management adopted in 1945, the postwar welfare-state regimes, and the decolonization process in the Third World. All these modes of accommodation entered into crisis by the 1970s, but no fundamental challenge to the American empire emerged from the other advanced capitalist states, and those from popular anti-colonial forces in the Third World were either defeated, co-opted or marginalized. The neoliberal turn in the us, and its subsequent near-universalization, entailed the restructuring and opening of the world's states, including ex-Communist ones, to economic competition, the free movement of capital and the deepening of capitalist social relations. Both financial markets and international financial institutions played a crucial role in facilitating this and in reinforcing American imperial power.

### *A faltering colossus?*

In any historical perspective, the notion that the power of such an empire might be eroded in the space of a few decades appears unlikely. This always made claims that the decline of American economic power was undermining us hegemony seem rather overblown. But what about today? To begin with the material basis of the empire, a few selected facts are worth noting:

- ▶ The real rate of growth of the American economy (GDP) in the twenty 'golden years' of 1953–73 was 3.8 per cent, while the growth of the other advanced capitalist states was considerably higher; the us rate of growth in the past two decades (1984–2004) was 3.4 per cent—not only higher than the rate of growth in all the periods before the golden age (1830–70, 1870–1913 and 1913–50), but higher than the other G7 countries in this period.<sup>14</sup>

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<sup>14</sup> For the historical comparisons, see Angus Maddison, *The World Economy: A Millennial Perspective*, Paris 2001. Growth rates: Bureau of Economic Analysis (BEA), National Income and Product Accounts (NIPA) tables, 1950–73; 1984–2004. A contrasting assessment of us growth performance, based on a different periodization, is offered by Robert Brenner, 'The Capitalist Economy, 1945–2000: A Reply to Konings and Panitch and Gindin' in Coates, *Varieties of Capitalism*, pp. 215–16. By making 1973–96 rather than 1984–2004 his period of comparison, Brenner includes the crisis decade of the 1970s (whereas our concern is with economic growth following the turn to neoliberalism) and leaves out the relatively high growth rates of the late 1990s and after the 2001 recession.

- ▶ us manufacturing productivity growth for 1950–73 averaged 2.5 per cent, well below that of the other advanced capitalist countries; for 1981–2004, it increased to 3.5 per cent, running ahead of all the other G7 economies. Notably, in terms of attracting investment, the rate of us manufacturing productivity growth has also run ahead of growth in labour compensation.<sup>15</sup>
  
- ▶ In 1981, the us spent almost as much on R&D as Japan, Germany, the UK, Italy and Canada combined; by 2000, it was spending *more* than the other G7 countries combined. The us share of global high-tech production (aerospace, pharmaceuticals, computers and office machinery, communication equipment, scientific instruments) was relatively steady at 32 per cent between 1980 and 2001, while that of Germany was halved (to 5 per cent) and Japan cut by about a third (to 13 per cent).<sup>16</sup>
  
- ▶ The volume of American exports since the 1980s has been growing faster than any of the other G7 countries: for 1987–2004, average annual export volume of the other G7 countries increased by a range of 4.5–5.8 per cent, while the us averaged 6.8 per cent.<sup>17</sup> The sales of American corporations abroad (not included in the trade accounts) were at \$3 trillion in 2002, well over double the overall exports from the us.<sup>18</sup> The share of after-tax corporate profits relative to us GDP earned by American corporations in their domestic and international operations is currently at the highest level since 1945.<sup>19</sup>

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<sup>15</sup> Bureau of Labor Statistics productivity data; productivity is measured as output per hour. Real output per full-time employee more than doubled in manufacturing for 1977–2001, but fell by almost 13 per cent in services; since additional labour hours in the service sector bring down the average, overall productivity in the American economy has declined slightly.

<sup>16</sup> Charles Kelley et al, 'High-Technology Manufacturing and us Competitiveness', Rand Corporation, March 2004; National Science Board, Science and Engineering Indicators, 2004, Figure 6-5. South Korea and China increased from about 1 per cent to 7 and almost 9 per cent respectively.

<sup>17</sup> OECD, *Economic Outlook 76*, Statistical Annex, Table 38. us exports did fall in volume terms between 2001–3, but have risen rapidly since.

<sup>18</sup> BEA, *Survey of Current Business*, January 2005, p. 79.

<sup>19</sup> BEA, NIPA Table I.12, February 2005. A rising proportion of this is accounted for by finance, an issue we take up below.

At a minimum, these facts ought to pose some problems for those making the case for American economic decline. But a more fundamental point needs to be made about the interpretation of the data. Economic categories are not context-neutral: the asymmetries of empire need to be factored into the interpretation and evaluation of exchange rates, trade accounts, fiscal deficits, capital flows, international debt. Any assessment of such criteria with regard to the question of American power today needs to bear in mind that what seems crisis-laden for 'normal' economies does not necessarily carry the same implication for the imperial state. At 6 per cent of GNP, the American trade deficit is higher than it has ever been. But what does this tell us, beyond the acknowledgement that it will eventually require some adjustment? The very fact that a trade deficit has persisted for virtually the last quarter-century suggests that it now has a different meaning for the us than for other economies. In the us case, the deficit is a product of the enormous volume of American imports, which has been a benefit to capitalism globally, rather than of a loss of competitiveness. The products of cheap labour involved serve to supply business with low-cost inputs and to reduce the cost of reproducing us labour, both of which intensify competitive pressures on wages.

### *Privileges of the metropole*

At issue here is the extent to which the us current-account deficit can be sustained without an inordinate increase in interest rates or weakening of the domestic currency. So far, foreign investors and central bankers have been quite ready to provide the requisite financing at relatively low rates of interest. This is not a matter of what Arrighi has dubbed a 'protection racket', but of structured self-interest.<sup>20</sup> Private investors still come into the American economy because it remains relatively dynamic, provides reasonably good returns and a high degree of safety. Foreign central banks have been willing to hold us Treasury bonds because of their own interest in keeping the dollar from falling too fast or too far; a reflection of their economies' dependence on exports to the us and of the deeper structural integration that American foreign investment has brought about in many places.

While the American fiscal deficit is ostensibly a national affair, it necessarily has international and imperial implications. The response of

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<sup>20</sup> Arrighi, 'Hegemony Unravelling—II', *NLR* 33, pp. 108–13.

financial markets to the Bush Administration's lack of concern with fiscal discipline has, at least until recently, been relatively muted. In part, this parallels the trade deficit: it reflects the global economy's structural dependence on the stimulus provided by the American economy and the confidence of global private investors, especially under a tax-friendly Republican administration. In addition, the 'fiscal discipline' that matters most to financial markets is whether governments have been giving in to pressures for social programmes, and in the American case such pressures have been notoriously weak. To the extent that the increase in the fiscal deficit is therefore a consequence of the costs of war (presented as an imperial necessity) and of the dramatic reduction in taxes on the wealthy (reflecting the highly skewed balance of class forces), financial markets have been prepared to tolerate it. The net outcome of the us state gaining access to global savings at low rates of interest is that the costs of empire have been shared—above all, by Japan and China.

The same goes for the flow of direct investment. For 'normal' economies, outflow of capital may imply a loss to the domestic base, while foreign inflow may be seen as a threat to local sovereignty. With its heavy imports of both capital and manufacturing goods from Third World countries, the us today appears to be both the least imperial and the most dependent economy in the world. But economic flows have no meaning outside the larger context of empire. For example, us investment in Canada and Canadian investment in the us are *both* expressions of American imperialism, reflecting, on the one hand, the American penetration of Canadian social relations and, on the other, the determination on the part of Canadian business to be inside the core of the empire, in order to sustain access to American markets and achieve security against possible protectionist measures. The same thing increasingly applies not only to Mexican investment in the us, but also to British, German and Japanese.

The type of impact that us capital investment has had in other social formations, where it has generally become an influential shaping force, is not matched by foreign direct investment within the us itself. In relation to the size of the American economy as a whole, foreign direct investment from any one particular country is relatively small. More important, it takes place within the framework of the already-established imperial order. us investment abroad has not only been large relative to the size of the other economies; more crucially, it coincided with, and was partly



constitutive of, the creation of the new imperial order—first in the western hemisphere and then, after World War II, in Europe and later in East Asia. For the US state, the relentless expansion of American investment abroad was an extension of empire. This is in no sense true of Japanese or German, much less of British, Canadian or Mexican investment in the US today. Indeed, to the extent that this foreign capital becomes part of the American social formation, it seeks to reproduce, not to challenge, the American imperial state.

American multinational corporations now employ almost ten million workers overseas.<sup>21</sup> This outward flow of capital is supported by inflows of short-term loans, such as corporate bonds, as well as foreign direct investment. Between 1980 and 1988, the value of FDI in the US had doubled; it had doubled again by 1997, and yet again by 2004.<sup>22</sup> The contrast with the British empire is striking. Between 1870 and 1914, Britain exported some 4 per cent of its GDP to the rest of the world, starving its own economy of productive investment and ultimately paying the price in the relative decline of its share in global production.<sup>23</sup> The US, on the other hand, has been receiving large inward flows and channelling these not only into consumption but also domestic investment, including the development and dissemination of new technologies. Again, this capacity to capture and employ so much of the world's savings, some of which is also recycled as American investment abroad, reflects the structural strength of the empire, not its weakness.

Overarching all this is the dollar. Had there been a run on the US currency over the past few years, this might have signalled the exhaustion of the American empire's privileged asymmetries. But the fact that a very substantial devaluation of the dollar has already occurred (especially vis-à-vis the euro) without disrupting financial markets points to something quite different. Though some central bank diversification of reserves away from the dollar may continue, any dramatic shift towards an alternative global currency remains most unlikely because there is neither the willingness nor the capacity for any other currency, including the euro, to play this role. The last thing the European Central Bank currently wants—both for immediate reasons and in terms of long-term

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<sup>21</sup> BEA, *Survey of Current Business*, July 2004, p. 23.

<sup>22</sup> BEA, US International Transactions Accounts, 15 March 2005.

<sup>23</sup> A. G. Kenwood and A. L. Lougheed, *The Growth of the International Economy 1820–2000*, London 1999, p. 28.

responsibilities—is for the euro to be further inflated relative to the dollar. Moreover, all central banks want to avoid the global financial instability that a shift away from the dollar would risk, given the greenback's role not only as the global reserve currency, but also as the main store of value for financial assets and chief vehicle currency for international commerce, through which goods and services are generally invoiced and other currencies exchanged.

### *Benign financialization*

To imagine that shifts in currency values determine, or are even an adequate measure of, the rise and fall of empires is a version of the monetary illusion. Lurking behind such notions, however, is the more substantive claim that the financialization of the economy, which we have identified as an integral part of the strength of the American empire, is actually a symptom of American imperial decline. For most Marxists, the theoretical argument usually runs from an overaccumulation crisis in the productive economy through to the shift of profits and savings into unproductive financial assets. We agree that overaccumulation is an inherent condition of capitalism. It is the mechanism through which units of capital compete for market share: even with perfect knowledge of the plans of others, corporations will collectively produce more than the expected total market—as they must do, if any one of them is to succeed in capturing an increased share of that market. As some capital is devalued overaccumulation is eased, but the problem will always be repeated. Yet this does not itself amount to a structural crisis, such as the sustained and self-reinforcing disruption in accumulation that occurred in the 1930s. And while this did also occur to a lesser extent in the 1970s, the crisis of that decade led to the acceleration of capitalist globalization rather than its interruption as in the 1930s.

This had much to do, we have argued, with the role of the American state in introducing neoliberalism and the role of finance within that regime.<sup>24</sup> Since the 1970s, finance has intensified quotidian pressures for the closure of unprofitable businesses, and the explosion of mergers and acquisitions has expanded capital's ability to exit. This has led to the loss of jobs and the disruption of whole communities; but partly because of the role finance played in providing credit to sustain consumption, it

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<sup>24</sup> See our 'Finance and American Empire', esp. pp. 60–6.

did not amount to such serious interruptions to accumulation as may properly be designated a structural crisis.

Some see the very strength of finance in the us as the source of new problems: with finance's large claims on the surplus, less is retained for reinvestment.<sup>25</sup> But even if we accept that the surplus is only created within a narrowly defined productive sphere, it would be wrong to ignore the dynamic supplemental role financial markets have played. The total surplus may be increased if finance disciplines firms to reorganize production, reallocates capital away from less profitable companies, helps to disseminate technology across sectors and generates the liquidity to supply venture capital to new businesses. These are not just 'add-ons' to the process of surplus creation; they represent some of the most dynamic aspects of the recent growth of the American economy at home and abroad. So even if the share claimed by finance increases, the net amount left for reinvestment may be higher than it would otherwise be. Moreover, in response to competitive pressures and opportunities within the productive sector, financial institutions have come to take on tasks that tend to blur (though not erase) the lines between production and finance. This includes functions such as payroll, accounting and planning that were formerly included in the 'productive' sector and then outsourced; similarly, many productive-sector firms have become significantly involved in financial activities.

To this should be added the crucial role played by financial institutions in the management of risk, a central condition for the continued expansion of global accumulation. While the role of finance has often been written off as speculative and therefore wasteful (which much of it of course is), this misses the distinction between what is useful from a perspective outside of capitalism and what is essential within capitalism; the derivatives revolution in financial markets shows that what is speculative is not necessarily wasteful, insofar as it contributes to managing risk. Just as transportation adds costs to production but is a prerequisite of global accumulation, financial markets bring new risks and costs yet are fundamental to capital's expanded reproduction.

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<sup>25</sup> See Arrighi, 'Hegemony Unravelling' and Harvey, *New Imperialism*; and, although on the basis of a different argument, Gérard Duménil and Dominique Lévy, 'The Economics of us Imperialism at the Turn of the 21st Century', *Review of International Political Economy*, vol. 11, no. 4, 2004.

A further prerequisite for global accumulation has been the Federal Reserve's central role in the provision of overall global liquidity. By throwing liquidity at every financial tremor and hint of recession in the us since the early 1990s, it has not only sustained American demand, but has kept liquidity high around the world; and this in turn has contributed to bringing vast pools of Asian labour into production—for export to an American market, sustained by the Fed's policy. To be sure, the Fed's ability to continue to do this on its own has increasingly been constrained since the turn of the century; nevertheless, it continues to secure a remarkable degree of cooperation from other central banks and finance ministries, above all the Japanese, who pumped 35 trillion yen's worth of liquidity into the world system in 2003 and 2004 to buy us Treasury bonds. To what extent this was an explicitly co-ordinated monetary policy has not been revealed, but as Richard Duncan has recently asked:

Was it merely a coincidence that the really large scale BOJ/MOF intervention began during May 2003, while [Federal Reserve] Governor Bernanke was visiting Japan? Was the BOJ simply serving as a branch of the Fed, as the Federal Reserve Bank of Tokyo, if you will? . . . If this was a globally co-ordinated monetary policy (unorthodox or otherwise) it worked beautifully. The Bush tax cuts and BOJ money creation that helped finance them at very low interest rates were the two most important elements driving the strong global expansion during 2003 and 2004. Combined, they produced a very powerful global reflation . . . Whatever its motivation, Japan was well rewarded for creating money and buying us Treasury bonds with it. Whereas the BOJ had failed to reflate the Japanese economy directly by expanding the domestic money supply, it appears to have succeeded in reflating it indirectly by expanding the global money supply . . . If some central bank had not stepped in and financed the private sector capital flight out of the dollar, then sharply higher interest rates most likely would have thrown the world into a severe recession. It is quite likely that this consideration also played a role in influencing the actions of the Japanese monetary authorities during this episode.<sup>26</sup>

Here we see clearly how the *internationalization of the state* operates within the framework of us empire. It allows for the implicit co-operation—if not explicit co-ordination—necessary for the us to continue to act as the importer of last resort and the global 'macro-stabilizer'; and it leads to the financial burdens of empire being shared internationally. Financial capital, and the political institutions which protect and manage it, consequently contribute both to increasing the global surplus and to the

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<sup>26</sup> Richard Duncan, 'How Japan financed global reflation', *FinanceAsia*, 10 March 2005.

subsequent distribution of the surplus in a way that supports the management and reproduction of empire. This is what makes the argument that the us is displacing its crisis through its privileged claims on global savings unconvincing. In fact, the us has acted as a stimulus to growth elsewhere through its massive imports and trade deficits. And if, for instance, German growth is lagging, it is not for a lack of global liquidity; rather, it means that the pressures on the German working class will be intensified, in order to retain domestic investment and attract foreign investment. Consequently, what is being 'exported' is not so much a displaced us crisis but the weakness of American labour.

### *Contradictions of us hegemony*

There are good grounds, then, for doubting Arrighi's assertion that the past decades have seen 'a relative and absolute loss of the us's capacity to retain its centrality within the global political economy'. Similarly, an analysis of the American state's capacities in the arenas of coercion and culture, and the role these have played in the successful reconstitution of the us empire in the neoliberal era, would go a long way to qualify the view that the Bush Administration's neo-conservative adventure in Iraq has precipitated the 'terminal crisis' of us hegemony, any more than difficulties in Vietnam in the late 1960s triggered its 'signal crisis'.<sup>27</sup>

Hegemony is a variable quality of rule; conjunctural shifts in the balance between consent and coercion in the deployment of structural power should not be mistaken for epochal ones. Since the demise of the ussr, Washington has faced fewer constraints in using coercive means to intervene in recalcitrant states that are harder to bring to heel via economic pressures alone. During the 1990s, one measure of the American imperium's hegemony—at least in relation to intellectual and political elites in the advanced capitalist states—was the criticism it attracted from human-rights groups for not intervening *more*; the imperial role was, of course, reinforced as every NATO government signed on to the war on Yugoslavia. Bush's isolationist rhetoric in the 2000 election campaign reflected traditional Republican attitudes, but isolationism was readily transformed into unilateralism once he had been schooled by both al-Qaeda and the neo-cons in the central fact of White House life: the American Presidency cannot be anything but imperial.

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<sup>27</sup> Arrighi, 'Hegemony Unravelling—I', pp. 74, 57.

We have argued that the very structure of the us imperial order involves ruling with and through other states, themselves relatively autonomous from the imperial centre. It is too early to say whether the elite forces that have long chafed at the constraints this sets on the us state have gained a permanent upper hand in Washington. But this is unlikely. The Bush Administration's attempt to mend fences in its second term, explicitly recognizing the relative autonomy of the other advanced capitalist states most closely linked to the us, suggests an acknowledgement of the realities of imperial rule. Arrighi himself reminds us of the worried words of a French functionary as levels of resistance rose in Iraq:

When the us finds itself bogged down, it poses a big challenge to the rest of the world. If America simply pulled out now . . . concern would quickly switch from the perils of us global domination to the dangers of a world deprived of us international engagement. America is in a mess but so are we.<sup>28</sup>

But if it is sheer hyperbole to describe us hegemony as in 'terminal crisis', this is not to suggest that there are no limits to American power. On the contrary, the necessity of refashioning the world's states as minimally adequate tools for the administration of global order could turn out to be a challenge as great as that faced by the formal empires with their colonial apparatuses. But such contradictions need to be measured against the imperial state's capacities to cope with them, relative to the capacities of oppositional forces to develop them into new political openings. Given the continuing co-operation of capitalist states in the management of crises, the system may stagger occasionally but it will persist.

Nevertheless, the very complexity of the task of managing global capitalism means that the American empire will not be able to prevent recurrent localized crises. This feat, after all, must be accomplished in the face of the financial volatility that attends the neoliberal order and has to be conducted through a multitude of states. The balance of domestic social forces within each state adds further complications, as does the competition among states to be sites of capital accumulation, even if this falls far short of anything like the old inter-imperial rivalry. China undoubtedly has the potential to emerge as an eventual rival to the us empire; but the realization of this potential is, by any measure, a long way off. The amassing of financial reserves in Asia does not in

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<sup>28</sup> *Financial Times*, 12 November 2003.

itself signal a shift in the locus of global power; gathering resources is quite a different matter to having the structural power to shape how those resources are used.

Faced with these realities, the temptation to rally spirits by proclaiming the imminent decline of American hegemony should be resisted. Do we really need things to get worse to condemn the current system? The world as it is already cries out for change; the issue is whether alternative political institutions can be created, to build the popular confidence that would effect a shift in the balance of forces. The most significant contradictions at present pertain to the legitimation of neoliberalism, in the context of the us empire. The latter emerged out of a specific crisis in world capitalist development in the first half of this century: the very states that had contributed most to the rule of law and the law of value domestically frustrated their extension at the international level. But their full extension to the international domain today, under the aegis of the American empire and through the internationalization of the world's states, creates a new contradiction: the international discipline the law of value imposes, intensified under neoliberalism, undermines the domestic space to pursue the legitimation functions of states.

In the case of many Third World countries, the contradiction goes deeper: international integration blocks the development of the national coherence which has always been a crucial condition for the emergence of the rule of law and the law of value domestically. This frustration of national development under pressure of the international law of value undermines the legitimacy not only of the regimes of the South but also of the international financial institutions and, ultimately, the American empire itself, whose imperial role is increasingly unconcealed. Problems of legitimation are also generated within the advanced capitalist countries, to the extent that neoliberal restructuring fails to mobilize convincing electoral support. But the complex political task of developing such cracks in the imperial carapace into strategic openings is not best helped by premature declarations of us hegemony's demise.