TOWARDS A THEORY OF THE CAPITALIST IMPERIAL STATE

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I

If we are to advance our understanding of imperialism today, much more attention will have to be paid to the historical development of state forms appropriate to capital's tendency to global expansion. The crucial question is this: through what inter-state relationships and mechanisms has the extension of capitalist social relations, markets and private property rights been facilitated, organized and assured across social formations? Answers to this will only be found via an expanded theory of the state.

Contemporary Marxian analyses of imperialism and its relationship to its sanitized cousin, globalization, have consistently fallen short of adequately theorizing states in relation to the making of global capitalism. Most Marxists today still address imperialism in terms of the extension of competition between units of capital to that between states and locate this in the context of accumulation crises and the asymmetric transfer of surplus and appropriation of value internationally. This tends to reinforce a view of the economy-state relation as being one of base-superstructure – in which case, any elaborated theory of the state is largely unnecessary and certainly uninteresting. Meanwhile, new approaches to globalization within the Marxist framework have evaded the need for a theory of the state by joining in the chorus about the nation state's growing irrelevance. 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 extreme, we find those who have embraced conceptions of decentered power in a borderless world. ('The fundamental principle of Empire', according to Hardt and Negri, 'is that its power has no actual and localizable terrain or centre', leading on to their insistence that *'the United States does not, and indeed no nation state can today, form the center of an imperialist project'*.[1]) There is a general underestimation of the extent to which states, rather than being the passive victims of globalization, have been its authors and enforcers through removing capital controls and introducing 'free trade' treaties that constitutionalize international property rights. As a result, not only is capital's dependence on *many* states amidst globalization insufficiently acknowledged, but also the 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 capitalist states along three dimensions. The first dimension encompasses their relation to accumulation. The separation of the political from the economic in capitalism involves a distancing of states from direct involvement in the organization of production, in the appropriation of the surplus and in the investment function. But at the same time, in addition to maintaining the juridical, regulatory, institutional and infrastructural framework for the competitive, commodity and credit relations through which all of the above operate, states are directly involved in policing capital-labour relations, managing the macroeconomy and acting as lenders 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 tax resources and the material foundations of their legitimacy. It is important to stress that the role capitalist states play in relation to accumulation is not merely a reactive response to demands and contradictions emanating from the process of accumulation. Capitalist states develop capacities for taking initiatives in promoting and orchestrating capital accumulation through a process of institutional learning and the development of expertise to anticipate and limit future problems. It is in these terms that we should think of the 'relative autonomy' of capitalist states. It is not so much that states are autonomous from the capitalist economy or from capitalist classes, as that capitalist states develop certain capacities to act on behalf of the system as a whole (autonomy), at the same time that their dependence on the success of overall accumulation for their own legitimacy and reproduction leaves those capacity bounded (relative). What must always be problematized, however, and made the subject of historical materialist investigation, is the actual range of such capacities that particular states developed and when and how this happened. Without this, analyses of capitalist crises will be one-dimensional and the predictions based upon them misleading.

Such investigation is impossible without addressing the second dimension of the capitalist state: the form of political rule. Here the separation of states from society in capitalism entails the constitutional distancing of political rule from the class structure. This separation also allows for the organization of class interests and their expression and representation vis a vis opposing classes and the state. The development of the rule of law as a liberal political framework for property owners is crucial to this, but as democratic demands to universalize liberal rights assert themselves liberal democracy eventually becomes the modal form of the capitalist state. What must always be problematized is the question of how relative is the state's autonomy in light of the balance of class forces and the connections between societal and state actors, and how that in turn bears on the state's legitimacy and shapes the capacities of state institutions in relation to accumulation.

The third dimension, implicit in our discussion of 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 and, indeed, its development was inseparable from the very process through which various states constructed their borders and defined modern national identities within them. Yet if the densest linkages were national, international linkages were never absent. We must not merely assume an irresolvable contradiction between the international space of accumulation and the national space of states. States have always been active players on the international economic stage. What needs to be problematized is whether what they are doing 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 what other states are doing. This allows for examination of the tensions and synergies between the national/territorial form of the capitalist state and international capital accumulation. This cannot be investigated apart from ideological, political and economic relations among states.

Here is where the relationship between capitalism and imperialism must enter the analysis. The age-old history of imperial political rule over extended territory and peoples takes a new form with the separation of the economic from the political under capitalism. This new imperialism cannot be reduced to capital's inherent tendency to expand (including via uneven development). Retaining the understanding of imperialism as political rule over extended territory and people, what is properly defined as *capitalist* imperialism pertains to the role specifically played by capitalist states in the spatial extension of the law of value and capitalist social relations. This was initially done, of course, through territorial expansion and colonialism, but pre-capitalist social forces played a large role in this, and it was at the same time accompanied by the exclusions inherent in formal imperial rule. What needs to be made the subject of historical materialist investigation is how the separation of the economic from the political was extended to the international level, including how the national/territorial capitalist state in its modal liberal democratic form (and its inscription by the mid-20th century into the constitution of international institutions and international law) was eventually universalized. This took place, as we shall now argue, under the rubric of the development of a new kind of informal imperialism whereby particular capitalist states, in the very process of creating the political and juridical conditions for international capital accumulation by their national bourgeoisies, also took responsibility – relative autonomy operates here as well - for creating the political and juridical conditions for the general extension and reproduction of capitalism internationally. This was fundamental to the making of global capitalism. It is to the history of this we now turn.

II

The mercantile empires that emanated from Europe's absolutist states were present at capitalism's birth. Insofar as it was only 'England that first created a form of imperialism driven by the logic of capitalism', this was so in the sense of a 'conception of empire rooted in capitalist principles in pursuit of profit derived not simply from exchange but from the creation of value in competitive production', and including the export of capitalist property relations to its colonies.[2] But what also needs to be stressed is that, even as the British state extended its colonial empire through the 19th century, it was also pioneering a new type of 'informal imperialism' through which it sponsored foreign investment and bilateral trade and 'friendship' treaties outside the territorial reaches of the British Empire – and even stood ready to open the way for other capitals to have access to these markets. This further involved the British state in playing the lead role in the extension of some of the key conditions for the operation for the law of value internationally – from the policy of free trade 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, a 'constant tension between the imperatives of capitalism and the demands of territorial imperialism… would continue to shape the British Empire until the end.'[3] Open markets hardly characterized Britain's relationship to its own colonies and, even more important, it proved difficult to generalize or sustain support for free trade – in part because other states tried to catch up with British capitalism by both protecting their own markets and establishing their own colonies, and also because the British state did not have the capacity to integrate or 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 in the late 19th and early 20th centuries. Capitalist states primarily acted in particularist ways in relation to accumulation and political rule beyond their borders (e.g. in seeking national advantages against competitors by limiting markets through tariffs, control over trade routes, military intervention, and especially imperial exclusion). The expansion of colonialism, the resistance to liberalism and democracy as a form of political rule and the particularism of each state's relation to accumulation produced severe contradictions along all three dimensions of the capitalist state. Inter-imperial rivalry was the consequence.

The Marxist theorization 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 amidst the politicization of competition at home (via finance capital) and abroad (inter-imperial rivalry). Their definition of imperialism as a stage of capitalism allowed them to avoid the pit-falls of a general trans-historical theory of imperialism. Yet, paradoxically, once imperialism was understood in the conjunctural terms of the times (inter-imperial rivalry), 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 that these theorists could 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.[4] Lenin closed the door, particularly in the debate with Kautsky, and future generations of Marxists were very slow to open it again. While Kautsky at least raised the question of other outcomes, what he had in mind here 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. Furthermore, had all the theorists of imperialism at that time (including Schumpeter and Bukharin) been more historical and investigated the informal 'free trade imperialism' of the British Empire – rather than defined it away through a false dichotomy between free trade and imperialism – a more promising theoretical legacy might have been bequeathed.

During and after World War II, the American state came to take responsibility for overcoming the fragmentation of the international capitalist order through the creation of a world of liberal trade and seamless capital accumulation. But while the goal was economic, the active force was political: the making of global capitalism could not have happened without the agency of the American state and the development of its capacity to attenuate the tensions between the national and international dimensions of capitalist states. It is fundamental that this ambitious historical project be understood as more than the rise of a new power or simply the international extension of American capital. Something more distinctive was emerging: the American state was acting as a self-conscious agent in the making of a truly global capitalism, overseeing the drive to universalize the law of value across states through the restructuring of states and the relationships between them.

The American empire did not come out of nowhere. In the Western hemisphere its roots go back to the foundation and territorial expansion of the republic through what Jefferson called 'extensive empire and self-government'.[5] It evolved over the 19th century through the articulation of dynamic capitalist development at home with the Monroe Doctrine. Despite Woodrow Wilson's ambitions at the end of World War I to extend the (mostly) informal imperialism practiced in this hemisphere to the global level, 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 setting out, as the American state did after WWII, to support the revival of its potential economic competitors (via the contribution of low-interest loans, direct grants, technological assistance, favourable trading relations, and the creation of a shared international stability). This was simply beyond the ken of the old Marxist theorization of imperialism.[6]

What was needed to comprehend this was an appreciation of the *internationalization of the state.* This entailed capitalist states explicitly accepting responsibility for coordinating their management of the domestic capitalist order so as to contribute to managing the international capitalist order. For the American state, under whose aegis this coordination took place either directly or indirectly via the new international financial institutions it dominated, this had a very special meaning: it defined the American national interest in terms of the reproduction and spread of global capitalism. The tensions this produced insofar as this state still represented the array of social forces specific to the American social formation were allayed by the increasingly global accumulation strategies of the dominant sections of the US capitalist class.

The new role of the American state in global capitalism was articulated clearly in the National Security Council secret document NSC-68 of 1950 in terms of the goal 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.'[7] The wording employed fifty years later in President George W. Bush's *National Security Strategy* of 2001 (written by the Republican intellectuals who founded the Project for a New American Century in the 1990s with the goal of making imperial statecraft the explicit guiding principle of American policy in the wake of the collapse of the Soviet Union) was not very different – but it was now open for all to see.[8]

What made the American state's new no-name imperialism viable had very much to do, of course, with its relation to accumulation in the world's leading capitalist economy. But it also had to do with the legitimacy that its form of internal political rule lent to the American state worldwide. The reproduction and eventual 'globalization' of capitalism in the second half of the 20th century relied on the extended legitimation of the American state's role in policing 'order among nations'. Liberal democratic ideas and institutions lent some credibility to the claim that even American military interventions were all about human rights, democracy and freedom. And the reproducibility beyond the republic of many of its administrative, legal and constitutional forms, and especially the ideological force of their cultural, political and juridical features, encouraged imitators and fuelled ambitions to remake the world's states in the image of the USA.

III

The liberal democratic legitimation of the new informal US empire has led to the common usage of the term hegemony rather than imperialism, including among Marxists. But it is dubious whether the full measure of the nature of American power after 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 should the concept of hegemony not displace that of empire. This displacement sometimes leads to the underestimation of the scale, scope, and breadth of American structural power and its capacity to reproduce its imperial status. This is especially seen in the tendency, whenever the economic gap with other developed states narrows or ideological discomfort is expressed over the style of American leadership, for too quick conclusions to be drawn about the decline of American hegemony.

This was already fairly common by the late 60s. The economic revival of Europe and Japan led many to suggest that the previous two decades were less a foundation for a new American world order than a temporary fix in the unique circumstances of the post-war period. Those who were earlier prepared to speak of 'empire by invitation' in the immediate post-war era were convinced that the US could not be called an empire at all by the 1970s.[9] Yet Europe and Japan had become more tightly penetrated, integrated, and dependent on the American empire *on the way towards* closing their economic gap with the US. Crucial here was the changing nature of international capital flows. Whereas capital flows during the British empire overwhelmingly took 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 investment was also increasingly characterized by the establishment of networks of integrated production across multiple borders.

This penetration/integration meant that American capital now existed as a material social force *inside* these other social formations. This had a more profound impact on social relations than purely financial flows since it affected property rights and labour relations and involved direct links with local banks, suppliers and buyers. Moreover, it limited protectionist impulses like those of the late 19th century by reinforcing the need for free trade to allow for integrated production. Thus, beyond the post-war political and military ties which could not help but shape the range of options under consideration, the impact of the American direct investment further did so as it brought in its train the incursions of American investment houses, the searching out of American consultancy firms, the emulation of American business schools, and the spread of American standards in law and accounting. The reorientation and restructuring of domestic class forces and national states that accompanied all this was in turn reinforced by their reliance on the US for the security of their investments in the third world, not just for protection against the Soviet or Chinese 'expansionism'.

The tensions between the US and the other developed capitalist states that emerged in the context of the revived international competitiveness at the end of the post-war 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 the American state took at the turn of the decade and the years that followed to reconstitute the material basis of its imperial role via neoliberalism. The mechanisms of neoliberalism (anti-inflationary discipline and the liberalization and expansion of markets) may have been economic, but neoliberalism was essentially a *political* strategy of shifting the balance of class forces. Reforms that had been previously achieved by subordinate classes, reinforced in the 1960s by new democratic pressures, now appeared in the context of the crisis of the 1970s as barriers to accumulation. Neoliberalism involved not just reversing earlier gains, but weakening their institutional foundations – and 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 of course not the only country to introduce neoliberal policies, but once the American state itself moved in this direction, it had a new status: capitalism now operated under a 'new form of social rule' that promised and largely delivered: (a) the revival of the productive base for American dominance; (b) a reproducible model for restoring the conditions for profits in other developed countries; and (c) the juridical as well as economic conditions for integrating global capitalism.[10] This involved both the 'constitutionalization of disciplinary neoliberalism' as international economic treaties required the free mobility of capital and the equal treatment of foreign and domestic capital, and the increasing 'Americanization of commercial law' as US legal practices in business were diffused throughout the world.[11]

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. The American military remained not only larger than that of other states but, even after the collapse of the Soviet Union, the other militaries remain tightly integrated with, and dependent on, the US through information flows, technological agreements, and the inevitability of strategic coordination. American industrial and financial capital more than ever penetrated Europe and Asia, while European and Japanese capital increasingly invested in the US itself, and largely embraced at home and abroad the competitive terrain defined by neoliberalism. And not only did US economic growth now exceed that of Europe and Japan, but dependence on American markets, serviced via direct investment in the US as well as trade, further reshaped the orientation of production and consumption patterns in Europe and Asia. The deepening relationship among their capitalists meanwhile has had profound new effects (e.g. Japanese and German investment in the US auto industry; and, whatever its weaknesses at home, General Motors' restructuring of the South Korean auto industry in a way the chaebols could not do).

In the context of this integration the US Federal Reserve, as the *Economist* recently noted, emerged as 'in effect, the world's central bank' in terms of its role in providing liquidity and setting the baseline for global interest rate changes.[12] The conditions for this development were seeded in the growth of international finance during the Bretton Woods era itself, especially once Wall Street investment houses came to dominate the new Eurodollar market in London. It was on the basis of this development that the first 'big bang' of financial deregulation occurred in New York in the mid-1970s and led to the explosion of both domestic and international financial markets after the Volcker Shock inaugurated the neoliberal era. It should be recalled that Wall Street was, in the late 70s, leading the outflow of capital from the US. The response of the American state as a *capitalist* state (representing finance in so far as it strengthened American capitalism) and as an *imperial* state (looking to imbricate finance in its global responsibilities) led to a painful restructuring of manufacturing in the American economy. This, together with Wall Street's increasingly deep financial markets, brought the world's savings to the US, while the growing international role of American investment banks mediated corporate mergers throughout Asia as well as Europe and further influenced the nature of their industrial and financial restructuring. The mutual embeddedness of Wall Street and the American state reinforces the empire.[13]

The specifically capitalist nature of the American empire is expressed through the international extension of the three dimensions of the capitalist state discussed earlier. As the domestic separation of the economic and political is extended into the international domain, it becomes possible to speak of an 'informal' empire. As other states take the form of the liberal democratic state and the American state comes to oversee global capitalism through these states, a unique form of imperial political rule emerges. And as each state comes to accept its responsibility for global accumulation, the territorial basis of nation states is absorbed into the trans-territorial making of global capitalism. The argument may be summarized as follows:

i) In place of the previous fragmentation of international capitalism, the post-war emergence of the American empire represented a political project oriented towards the goal of an inclusivist liberal world of seamless accumulation. It 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.

ii) The Keynesian forms of social rule and international economic management adopted in 1945 entered into crisis in the 1970s, but no fundamental challenge to the American informal empire emerged from the other advanced capitalist states. The neoliberal turn in the American state, and its subsequent universalization, entailed the restructuring of the world's states to become more accommodating to economic competitiveness, 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 all this and in reinforcing American imperial power.

iii) At the head of a global empire, the American state is more than the mere agent of the particular interests of American capital; it also assumes responsibilities for the making and management of global capitalism. Nor is its ability to do this simply a matter of capacities internal to the American state. American multinational corporations reinforce the capacities of the American state, and indeed American imperial power is diffused through them. At the same time, the interpenetration of capital internationally undermines the autonomy of national bourgeoisies and renders them hostile to strategies that might fundamentally challenge the American informal empire.

iv) The American imperial form of rule through other sovereign states involves the structuring of their options such that they identify their own reproduction with accepting responsibility for contributing to reproducing the conditions for global capital accumulation and 'order among nations'. The densest institutional and economic linkages in the new imperialism have been developed among the developed capitalist states (including the former imperial states whose densest links were previously with their own colonies). These states have continued to benefit from the reproduction of third world dependency, but their status within the informal American empire has limited their autonomy in initiating imperial practices.

IV

A senior Bush advisor was reported recently to have said: '[W]e're an empire now, and when we act, we create our own reality. And while you're studying that reality… we'll act again, creating other new realities… We're history's actors… and you, all of you, will be left to just study what we do'.'[14] Against such chutzpah, it is useful to remind ourselves that even as powerful an historical actor as the American state makes history not under conditions of its choice. Questions are rightly raised pertaining to whether the conditions that made for American imperial rule to this point are being reproduced or undermined. Unsurprisingly, these questions come not least from Marxists, whose use of the term imperialism in the current conjuncture usually hints at the return of inter-imperial rivalry, and also suggests that the American empire on the verge of decline just as the imperial nature of the American state is belatedly being acknowledged. How are we to assess this within the framework we have advanced above?

In any historical perspective, the notion that the power of an empire of such strength might be defrayed in only a few decades would appear unlikely to say the least. This always made the widespread claims that began as early as the 1960s and spread through the 1970s and 1980s about the decline of American power 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' before 1973 was 3.8%; the rate of growth in the past two decades (1984-2004) was 3.4% - higher than the rate of growth in all the periods before the golden age (1830 to 1870, 1870 to 1913 and 1913 to 1950).[15]

- US manufacturing productivity in the post-war period (1950-1973) averaged 2.5%; since the early 80s (1981-2004) it increased quite dramatically to 3.5%, running considerably ahead of the growth in labour compensation.[16]

- In 1981, the US spent almost as much on R&D as Japan, Germany, Japan, UK, Italy and Canada combined. By 2000, because US expenditures grew faster, it was spending *more* than the other G7 countries combined.[17]

- The US share of global high technology production (aerospace, pharmaceuticals, computers and office machinery, communication equipment, and scientific - medical, precision, and optical - instruments) was relatively steady at 32% between 1980 and 2001, while that of Germany was halved (to 5%) and Japan cut by about a third (to 13%). China and S Korea increased from about 1% to almost 9% and 7% respectively.[18]

- The volume of American exports since the 1980s has been growing faster than any of the other G-7 countries: between 1987 and 2004, average annual export volume of the other G-7 countries increased over a range of 4.5% to 5.8%, while the US averaged 6.8%.[19]

- 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.[20]

- The share of after-tax corporate profits in the American GDP is currently at the highest level since 1945.[21]

Such facts do not 'prove' anything, although they do suggest that those making the case for the decline of the American empire in the current conjuncture have some convincing to do. But a more fundamental issue is at stake. Economic categories are not context-neutral: the asymmetries of empire need to be factored into the interpretation and evaluation of trade accounts, fiscal deficits, capital flows, international debt, and the value of the currency. What seems crisis-laden for 'normal' states does not necessarily carry the same implication for the imperial state.[22] The question of the sustainability of the American empire today cannot be answered without taking this into account - any more than it could in the 1970s when Poulantzas properly disdained arguments about American decline that were 'restricted to "economic criteria" which, considered in themselves, do not mean very much (rates of growth, of increase in GNP, etc.), and extrapolate from these in quite an arbitrary manner, particularly insofar as they ignore the class struggle.'[23]

This needs to be borne in mind in any assessment of the main economic criteria being used to indicate the decline of American power today. The American trade deficit is, at six per cent of GNP, larger than it has ever been. But what does this tell us apart from that it will eventually require some adjustment? The fact that a trade deficit has persisted for virtually the last quarter century suggests that trade deficits now have quite a different meaning for the US than they do for other states. In the case of the US, a general loss of competitiveness is not the issue, as the above general numbers on export growth indicate. The trade deficit is rather a product of the enormous volume of American imports, much of which has been a benefit to capital in that it supplies business with low cost inputs and lowers the cost of reproducing labour by providing workers with cheaper commodities, all the while intensifying competitive pressures on wages.

The constraint the trade deficit poses lies in the extent to which it can be sustained without inordinate increases in interest rates and/or weakening of the domestic currency. So far, foreign investors and central bankers have been quite ready to provide the requisite financing. This is not a matter of forced tribute but structured self-interest. Private investors still come into the American economy because it remains relatively dynamic, provides relatively good returns and a high degree of safety. Foreign central banks, for their part, have been willing to hold US Treasuries because of their own interest in keeping the dollar from falling too fast or too far, reflecting the dependence of their economies on exports to the US and the deeper structural integration that US foreign investment has brought about in many places. But what is also at work here is the internationalization of the state as we have defined it, and in this case it is especially seen in terms of the responsibility that central banks everywhere now take for averting the global economic crisis that any collapse of the American dollar might trigger.

While the American fiscal deficit is ostensibly a national affair, it too clearly has international and imperial dimensions. The response of financial markets to the Bush II Administration's lack of concern with fiscal discipline has, at least until recently, been relatively muted. In part, this parallels the trade deficit, and reflects the global economy's structural dependence on the stimulus provided by the American economy and the confidence of global private investors in the American economy, especially under a tax-friendly Republican administration. As well, the 'fiscal discipline' that matters most to financial markets is whether states have been giving in to pressures to retain or expand social programs, and in the American case especially such pressures remain weak and the current Administration is highly resistant to them. 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 so far to tolerate it. The net outcome of the American state gaining access to global savings at low rates of interest is that the costs of empire have been shared globally.

As for the flow of direct investment, for some countries the outflow of capital may imply a loss of their domestic economic base, while foreign inflow may be seen as a threat to their 'sovereignty'. As measured by the level of net capital exports and the location of manufacturing, the US today appears – with its heavy imports of both capital and manufacturing goods from third world countries – to be both the *least* imperial and the *most* dependent country in the world. But economic flows have no meaning outside the larger context of empire. For example, American investment in Canada and Canadian investment in the US are *both* expressions of American imperialism: 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 directly inside the core of the empire and under the direct protection of the American state (e.g. to benefit from the property rights and labour relations regime, and to gain access to American markets and achieve security against possible protectionist measures). The same thing applies not only to Mexican investment in the US, but also to British, German and Japanese.

For the American state, the relentless expansion of American investment abroad is an extension of empire: American corporations now employ almost ten million workers overseas.[24] This outward flow of capital is supported by inflows of short-term loans, such as corporate bonds, while the inflow of foreign direct investment is a welcome addition to American domestic capacity: with the adoption of neoliberalism at the beginning of the 1980s, the value of FDI in the US doubled by 1988, doubled again by 1997 and doubled yet again by 2004.[25] The contrast with the British empire is notable. Between 1870 and 1914, Britain exported some 4% of its GDP to the rest of the world, starving its own economy of productive investment and ultimately paying the price for its consequent relative decline in global production.[26] The US, on the other hand, has been receiving large inward flows and channelling these not only into consumption but also domestic investment, including both new technologies and the dissemination of developed technologies. Again, this capacity to capture and employ so much of the world's savings, some of which also is recycled as American investment abroad, reflects the structural strength of the empire not its weakness.

Overarching all this is the American dollar. Had there been a run on the dollar over the past few years, this might have signalled the exhaustion of the American state's privileged asymmetries. But the fact that a very substantial devaluation of the dollar has already occurred, especially vis a vis the Euro, without disruption of 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 responsibilities – is that the Euro be further inflated relative to the dollar. Moreover, all central banks want to avoid the global instability that shifting the world away from the dollar would risk given the dollar's role not only as the main global reserve currency, but also as the main store of value for financial assets (including for the issuance of public and private long-term bonds) and as the main vehicle currency in international commerce through which goods and services are generally invoiced and other currencies exchanged.

To imagine that shifts in currency values determine, or even are 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 that 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 to the shift of profits and savings into unproductive financial assets. We may 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, a corporation will produce more than the expected total market in the hope that other corporations will be forced to cut back. As some capital is devalued overaccumulation is eased, only to be repeated again. But this does not itself amount to a structural crisis in the sense of a sustained and self-reinforcing disruption in accumulation of the kind that occurred in the 1930s. And while this did also occur to a lesser extent in the 1970s, the crisis this time led on to the acceleration of capitalist globalization rather than its interruption as in the 1930s. This had much to do, as we have argued, with both the role of the American state and the development of finance.[27] Since the 1970s, moreover, finance has intensified quotidian pressures for the devaluation of unprofitable businesses and the explosion of the mergers and acquisitions business has expanded capital's ability to exit. This has led to the loss of jobs, the interruption of people's incomes and disruption of whole communities, but it has also helped avoid such serious interruptions to accumulation as may properly be designated a crisis.

Another argument sometime heard, to the effect that the US is displacing its crisis through its privileged claims on global savings, is also unconvincing. The US has in fact acted as a stimulus to growth elsewhere by way of its massive imports and trade deficits. And though European and Japanese growth are lagging, it is not for a lack of global liquidity. Rather, even if Europe is somewhat disadvantaged in accessing global funds, this only means that the pressures on their working classes will be intensified in order to retain domestic investment and attract foreign investment. What is consequently 'exported' is not so much a displaced crisis in the United States but the weakness of American labour.

To be sure, some see the very strength of finance in the US as itself the source of a new crisis: with finance's large claims on the surplus, less is retained for reinvestment. The problem with this argument – even if we accept that surplus is only created within a narrowly defined productive sphere – is that it overemphasizes the distribution of the surplus between finance and industry at the expense of the dynamic implications of stronger financial markets. The total surplus may be increased to the extent that finance disciplines firms to reorganize production; reallocates capital away from less profitable firms; contributes to the dissemination of technology across sectors; and generates the liquidity to supply venture capital to new firms. So even if the share to finance increases, the net amount left for reinvestment may be higher than it would otherwise be. 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. 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 (payroll, accounting, planning) that were formerly included in the 'productive' sector and then outsourced (while many of the firms in the 'productive' sector have become significantly involved in financial activities). To this needs to added finance's role in the development and dissemination of the revolutionary changes in computerization and telecommunications.

A central condition for the continued expansion of global accumulation is the management of risk. While the role of finance has often been written off as speculative and therefore wasteful (and 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. What the derivatives revolution in financial markets shows is that what is speculative is not necessarily wasteful insofar as it contributes to managing risk. Just like 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. A further prerequisite for global accumulation has been the US 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 especially contributed to bringing vast pools of Asian labour into production for export to an American market sustained by the Fed's policy. This has allowed the US to act as the importer of last resort and therefore as the global 'macro-stabilizer', and has in turn allowed the financial burdens of empire to be effectively shared internationally. Through all of this financial capital and the political institutions that protect and manage it consequently contribute both to increasing the global surplus and to the subsequent distribution of the surplus in a way that supports the management and reproduction of empire.

V

The successful reconstitution of the American empire in the neoliberal era does not mean that there are no contradictions or limits to global capitalism or American power, as we shall presently see. But such contradictions as do exist need to be measured alongside the capacities of the American state and capitalists to cope with them, and the capacities of oppositional forces to take advantage of the contradictions and develop them into new political openings. Given the time and political space to squeeze workers harder and strengthen capital, the attenuation of contradictions becomes possible. Without a working class capable of limiting capital's and the state's ability to contain contradictions, and with the continuing cooperation among capitalist states in the management of crises, the system may occasionally stagger, but it will persist.

Contradictions and crises, in short, cannot be understood apart from class and empire. We should not try to inspire ourselves and others with dire predictions of American decline amidst severe economic crises. Do we really need things to get worse to condemn capitalism and empire? Do we really expect that the fear that things will get worse will make politics easier rather than create a nostalgia born of desperation for yesterdays that weren't-quite-as-bad? The world as it is *already* cries out for change and the issue is whether alternative political institutions can be created which build the capacities and the confidence to get on with challenging the powers-that-be to the end of transforming the world.

We are ourselves convinced that the very complexity of managing a global capitalism means that the American empire will not be able to prevent recurring localized and sectoral crises. This management can never anything but complex because it has to be accomplished in the face of the financial volatility that attends the neoliberal form of rule; and it has to be conducted through a multitude of states (with the balance of domestic social forces in each state adding complexity). But we are not convinced that the capacity for crises to be contained, as they have been over the past quarter-century, is exhausted. Nor would we deny that China has the potential to eventually emerge as a rival to the US empire. But this potential should not be mistaken for its realization, and that is by any measure still a long way off. The amassing of financial reserves in Asia does not in itself signal a shift in the locus of global power: there is a difference between the gathering of resources and having the structural power to shape how those resources are used.

The most significant set of contradictions, in our view, pertain to the problems associated with the political legitimation of the American empire. The American empire emerged out of a specific contradiction in capitalism: the very same states that contributed to the development of the rule of law and the law of value domestically frustrated their full extension internationally. But their eventual extension to the international domain, under the aegis of the American empire and through the internationalization of the world's states, creates a further contradiction: the international discipline the law of value imposes, especially under neoliberalism, further 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 that 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 of the international financial institutions, the internationalized states of the South and, finally, of the American empire itself as its imperial role is increasingly unconcealed.

Over time, as the false promises of neoliberalism are more fully and widely exposed, this becomes increasingly problematic in terms of imperial stability. This problem is sharpest in the third world, where neoliberal globalization, in spite of growth in Asia, is incapable of finding a general path to development. This not only delegitimates the international financial institutions, but also their transparent American leadership and the collusion of their own governments with them. This opens the door to popular resistance (and first world solidaristic support). Moreover, every time the American state succumbs to the temptation (enhanced since the collapse of Communism) to use military power to directly intervene in what it defines as 'rogue' states that are difficult to bring to heel and restructure via economic pressures, this adds to the problem of legitimacy for the empire. It is this that has now placed American imperialism, rather than just globalization, on the agenda of the global justice movements.

Within the advanced capitalist states at the core of the empire, legitimacy problems are also generated internally, especially as neoliberal restructuring runs up against structural impediments (whether such obstacles take the form of the resistance of Japanese banks or European labour). As for the US itself, even if the costs of empire are passed on internationally (through others holding American dollars), a portion of the costs will still include further impositions on American workers and their communities. The question is whether debates such as those around social security will be broadened – even beyond Wall Street's greed – to being about the burdens of empire. The hubris of American empire – based on its very successes in 'creating new realities' – may lead not only to overextension abroad but also overconfidence at home, underestimating the potential for resistance abroad to inspire renewed class struggles inside the US itself.

(April 1, 2005)

[1]ENDNOTES

Michael Hardt and Antonio Negri *Empire* (Cambridge, Mass: Harvard University Press 2000) 384 and xiii-xiv, emphasis in text. For the argument on the transnational state, see most recently W. Robinson, *A Theory of Global Capitalism: Production, Class and State in a Transnational World* , Baltimore: Johns Hopkins University Press, 2004.

[2] Ellen Meiksins Wood, *Empire of Capital*, London: Verso. 2003, pp. 73, 100.

[3] Ibid, p. 90.

[4] Bukharin's analysis was richer than Lenin's, but in spite of the fact that he began his essay with 'The struggle between "national" states…' his actual analysis of the state remains reductionist and perfunctory. Nikolai Bukharin, *Imperialism and the World Economy* (1917), London: Merlin, 1987.

[5] See our 'Global Capitalism and American Empire', *Socialist Register 2004*, London: Merlin, 2003., p. 10.

[6] As 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: NLB, 1978, p.160. In the context of American dominance in this period submerging any possibilities of inter-imperial rivalry, 'imperialism', previously understood by Marxists as a relationship of rivalry within the developed capitalist world that *affected* the periphery, was redefined so the core-periphery relationship became imperialism's *essence*. Yet here too, the theorization of the state fell short. The focus was on the economic processes that generated underdevelopment, while too little attention, and sometimes none at all, was given to how the unity within the first world was maintained, the mechanisms through which third world states and societies were restructured to accommodate global accumulation, and the centrality and specificity of the American state in initiating and coordinating these processes.

[7] Quoted in William Appleman Williams, *Empire as a Way of Life* (New York: Oxford University Press, 1980), p. 189.

[8] See 'Rebuilding America's Defenses: Strategy, Forces and Resources For a New Century', A Report of the Project for the New American Century. http://www.newamericancentury.org/publicationsreports.htm; and *The National Security Strategy of the United States of America* (Falls Village, Connecticut: Winterhouse, 2002).

[9] G. Lundestad, 'Empire by Invitation? United States and Western Europe 1945-52', *Journal of Peace Research* 23 (3), September 1986. See his recent *United States and Western Europe since 1945* (Oxford: OUP, 2004), which describes the decade of the 1990s in terms of 'renewed invitations'.

[10] See Greg Albo, 'Contesting the New Capitalism,' and our 'Euro-Capitalism and American Empire,' in David Coates, ed. *Varieties of Capitalism, Varieties of Approaches,* (New York: Palgrave, 2005).

[11] See Stephen Gill, *Power and Resistance in the New World Order* (New York: Palgrave, 2003) and Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization* (New York: Columbia, 1996).

[12] 'Still Gushing Forth: The World Economy is awash with liquidity, pumped by America' *The Economist*, February 3, 2005. Eric Newstadt has impressively documented the history of this development of the federal reserve into the 'world's banker' in a research paper prepared for the authors (publication forthcoming).

[13] See L. Seabrooke, *US Power in International Finance*, New York: Palgrave, 2001,

[14] New York Times Magazine, October 17, 2004.

[15] Source: NIPA tables, 1950-1973; 1984-2004. http://www.bea.gov/bea/dn/nipaweb/TableView.asp#Mid. Historical comparisons can be found in Angus Maddison, The World Economy: A Millennial Perspective (Paris: OECD, 2001).

[16] Bureau of Labour Stattistics, http://www.bls.gov/bls/productivity.htm. Productivity is here measured as output per hour. The American economy's ability to commercialize and expand lower-productivity services through gaining access to more (and cheaper) labour means that overall productivity in the American economy has declined slightly reflecting the fact that additional labour hours in the service sector brings average productivity down. If we look at real output per full-time employee, it more than doubled in manufacturing between 1977 and 2001 but it fell by almost 13% in services (for source see following note)**.** This dramatically affected *average* productivity, and since measuring service productivity is so problematic, it makes interpretations of average productivity all the more problematic. Little noted is the fact that the higher productivity in manufacturing and the competition it faced restrained prices much more than in services. So when we look at the share of GDP in dollar terms, manufacturing shows a decline from about 23% to 15%. If however if we adjust for the price effect it remains relatively constant. The productivity growth in manufacturing comes at the expense of employment in manufacturing. Consumers get more manufactured goods and benefit from the productivity savings in terms of relatively low prices – leaving more money for purchasing new services, where the new employment grew.

[17] Charles Kelley et al, 'High-Technology Manufacturing and US Competitiveness', Rand Corporation, March 2004, p. 130 (prepared for the Office of Science and Technology Policy.

[18] National Science Board, Science and Engineering Indicators, 2004, Figure 6-5.

http://www.nsf.gov/sbe/srs/seind04/start.htm

[19] OECD, *Economic Outlook 76*, Statistical Annex, Table 38. US exports did fall in volume terms 2001-3, but have risen rapidly since.

[20] *Survey of Current Business*, January 2005, p. 79.

[21] Bureau of Economic Analysis, NIPA Table 1.12, February 2005. A rising proportion of this is accounted for by finance, as issue we take up below.

[22] Dick Bryan has argued that the Keynesian accounting systems in use are, in the context of globalization, no longer relevant for *any* country. See Richard Bryan, 'Global Accumulation and Accounting for National Economic

Identity', *Review of Radical Political Economics* 33 (2001), pp. 70-71. Even if somewhat overstated, this point has not received the attention it deserves. Our argument, however, is that what upsets orthodox accounting is the asymmetry of the American state within the American empire.

[23] Nicos Poulantzas, *Classes in Contemporary Capitalism*, London: NLB, 1974, pp. 86-7.

[24] Survey of Current Business, July 2004, p. 23. http://www.bea.gov/bea/pubs.htm.

[25] Bureau of Economic Analysis, US International Transactions Accounts Date, March 15, 2005.

[26] A. Kenwood & A. Loughheed, The Growth of the International Economy 1820-2000, London: Routledge, 1999, p 28.

[27] See our 'Finance and American Empire', *Socialist Register 2005*, London: Merlin, 2004.