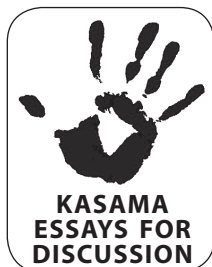


# COSTS OF EMPIRE

*"Time-bombs,"  
Anarchy, Guns and  
the New Depression*

*by Eddy Laing*



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how we create our culture and learn through our social practices.

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# Costs of Empire: “Time-bombs,” Anarchy, Guns and the New Depression

By Eddy Laing

## I

“And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.” (Karl Marx and Frederick Engels, *Manifesto of the Communist Party*, “Bourgeois and Proletarians.”)

### The neo-liberal quagmire

Among its other qualities, capitalist production is governed by an incessant chase to realize exchange-value. The circuit of capital is only concluded by selling the commodity, whatever it is, and converting the surplus-labor concretized in it into money (which can then be re-activated in the next circuit).

While every commodity must meet a social use-value in order for it to find a buyer, there is no over-all conceptualization of the extent of the social need that any set of commodities might fulfill. There are quite typically many more commodities produced than can be circulated (at a profit) by capitalist markets. This applies to bushels of corn as well as clothing as well as sport utility vehicles.

This anarchic character of capitalism comprises a risk to the capitalist, who can never know whether or how many units of the commodities that he is trying to sell will actually be sold.

An important feature of contemporary global capitalism (imperialism) is the export of capital; that is, the transfer of capital processes by highly concentrated (e.g. monopoly) formations into local and regional economies elsewhere around the planet. This process has reached such an extent that not only do local neo-colonial economies (such as Nigeria) come to be dominated by externally-centered formations (such as ExxonMobil and Royal Dutch Shell), but also entire circulatory processes are set-up ‘off shore’, away from the ‘original’ center of the formation.

For example, most US electronics and computer equipment firms conduct their production processes not in the US but in Thailand, Singapore, China, or some other country. Many of the commodities so produced are not returned to the US for sale, they are sent on to be sold elsewhere in the world. The sale of those commodities realizes further money-capital which is re-energized off-shore (by the labor of workers) in further production and circulation circuits. Profits from this process might also be banked off-shore as well (although ultimately they accrue to the owners of the capital process in whatever form those capitalists demand and wherever they reside).

Increasingly, capitalism - and especially US capital - has relied on this export of capital to reproduce itself. A key quality of late 20th C. ‘neo-liberalism’ has been an ever increasing domestic ‘down-sizing’ along with ‘out sourcing’ of capital reproduction processes to other countries, especially to Asia and Latin America.

As this out-sourcing comes to typify capital, it introduces new risks into the circulation process. For

example, when capital circuits are freed from the economic relationships of the home country they are also freed from its legal and political superstructure, which was constituted to serve those capitalists who own the out-sourced capital process. Likewise, risks emerge from fluctuating currency valuations or other 'disequilibria' that might arise between the home economy and the satellite economies, among multiple off-shore economies, and so on.

One obvious response to these risks is the extension of political power through military means. This has been exemplified throughout the capitalist epoch, from approximately the Anglo-Dutch wars of the 17th century up through the US invasion of Iraq. War is not only the continuation of political affairs by other means; it is financially costly, destructive of the very elements of accumulation that a capitalist state seeks to guarantee (human labor and fixed assets), and, most importantly, introduces additional risk in the form of outcomes that are nearly always comprised of unintended effects.

Capitalist states have therefore attempted various geo-political structures to encode their rights of accumulation. This has historically taken the forms of inter-state treaties, the League of Nations, the United Nations Organization, the European Union and other multi-state bodies. Indeed, the bodies that were devised within Bretton Woods (IMF, World Bank) dictate complex rules for the transfer of money-capital which also serves a multi-state superstructural purpose.

## Hazards of empire

The effort to control economic risk is not a new concept, but it is specific to capitalism. Risk control is the basis of the insurance sectors, and the reason there are commodity exchanges that buy and sell 'futures' - contracts to deliver X amount of something — such as corn or pork or eurodollars — in amounts and prices decided well in advance of delivery. This future-trading mechanism is applied to precious metals, stock (equity) prices, bond (debt) obligations, and so on. The earliest risk-management instruments were 18th C. shipping insurance companies (e.g. Lloyd's of London) that offered guarantees of trans-oceanic deliveries of slave la-

bor to and raw materials from the colonies to capital formations in England, the Netherlands, the USA, etc. By the second half of the 20th C., capital was confronted with many types of risks it had not faced 200 years earlier, including the consequences of anti-colonial social movements and the global imperial contention formalized in NATO and the Warsaw Pact.\*

In the post-World War 2 period, several mechanisms were implemented to try to control risks. In the geo-political arena, various treaties and alliances — backed by imperial militaries — were entered into around the world. In the economic arena, the Bretton-Woods agreement was devised to control economic variability by imposing the US gold reserves and currency as the 'Western' (as distinct from the USSR, China and the Warsaw Pact states) standard against which all others would be measured.

With the collapse of the Bretton-Woods arrangement in 1971 — a collapse that was prompted by then-current economic instabilities and political realignments within international capitalism — new mechanisms for mitigating risk were sought out.

It is from this time forward - accelerating quickly during the so-called Thatcher-Reagan era of the 1980s - that contemporary arbitrage and financial 'derivatives' enter the capitalist world. Derivatives are contracts that promise a specific financial outcome (e.g. delivery date, sale, purchase) or change in market factors. For example, grain 'futures' are derivative contracts and can be traded without either party ever taking possession of the grain that is supposedly the basis of the contract. Financial derivatives are used to trade in interest rates, currency exchange rates, commodity, credit, and equity prices. Arbitrage is a type of trading which operates on the price differentials between markets.

In 1973, financial derivatives were almost non-existent.<sup>1</sup> In fact, in the US and the UK, financial deriva-

\* It is also a feature of capitalism that social relationships are hidden behind abstracted economic transactions. Just as the human source of value is hidden behind the exchange-value of commodities, other highly differentiated and unequal social relationships are abstracted as generic 'risks' that should be priced into the circulation of commodities rather than negotiated 'face to face' in the real social world.

tives were considered to be covered by gaming statutes. Financial futures were disallowed as wagering at the Chicago exchanges until 1982, and the status of financial derivative trading in London wasn't resolved until 1986.<sup>2</sup> By the second quarter of 2008, US commercial banks (alone) held derivatives valued at \$182 trillion.<sup>3</sup> The October 9, 2008 *New York Times* placed the global trading value of derivatives and similar instruments at over \$531 trillion.<sup>4</sup>

As we've seen in recent months, financial derivatives are the objects of extensive trading and speculation, since they cover money-capital itself and have come to comprise large percentages of the assets held by the biggest commercial banks and insurance companies. The circulation of derivatives is now the single largest market in the capitalist world economy. As objects of speculation, these debt obligations are even further separated from the underlying economic relationships they presumably represent. The capitalists themselves complain that 'no one understands' the specific sources of these derivatives, their composition in money-capital or collateral.

The reality of the matter — while encompassing defaulted mortgages and illicit lending practices — is much more profound and general. The speculative trade in these obligations has diverted money-capital from value-creating (productive, 'real economy') sectors and exacerbated global currency disparities. This has in turn affected international trade and lending, resulting in corporate debt defaults, runs on bank deposits and money market funds, the collapse of hedge funds and still greater trade imbalances between states.

"[People] think of derivatives as being everything toxic about the market they don't like. That's not true. Markets have been toxic for many, many years before derivatives arrived. And we've always thought of having a hedge as desirable." (New York University finance professor to Reuters, 31 October 2008)

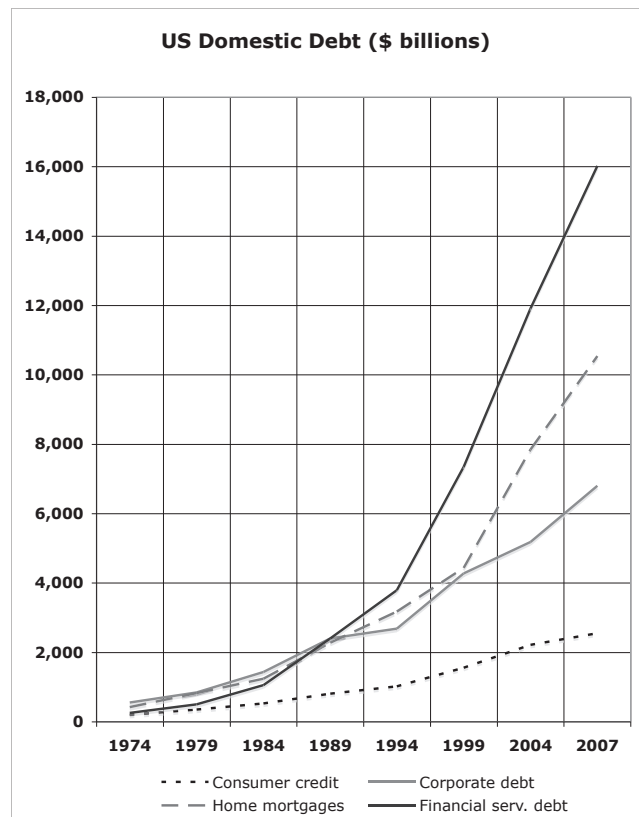
It is an enduring feature of capitalism that even the mechanisms devised to mitigate risks are subject to the most rapacious types of speculation, thus increasing the risks that the mechanism was intended to prevent.

## "everything but the squeal"

Tremendous debt has emerged as a central, enduring feature of US imperialism.

Among the most favored objects of derivative trading have been collections of debts: corporate bonds, municipal bonds, mortgage-backed securities, and so on. This speculation on debt has been revealed as an important trigger of the current crisis. The trade in debt-based derivatives is euphemistically called 'exposure to risk based capital' — a truly revealing description.

At the end of the second quarter of 2008 (July 1), US commercial banks 'owned' \$182 trillion in derivatives. The vast majority of these derivatives (\$176.6 trillion) were held by just five banks: HSBC, JP Morgan Chase, Citibank, Bank of America and Wachovia. The single largest category of derivative (\$114 trillion) in all that is the 'credit default swap' — a 'future' contract to guarantee full or partial payment on one or more debts.<sup>3</sup>



A break-down of domestic debt

Several factors have influenced this accumulation of debt, including the lending rates set by the Federal Reserve Bank and by the speculation in financial derivatives itself. But at bottom, it reflects the international parasitism of the US economy in relation to the rest of the world, and specifically the massive amounts of money-capital created through the super-exploitation of human labor in Asia, Africa and Latin America.\* For the past several decades, US society has been held together with great amounts of debt, both short-term and long-term.

For the week ending October 22, US commercial banks held loan obligations worth \$7.2 trillion. Of that amount, \$1.7 trillion were commercial real estate debts; \$1.6 trillion were loans to commercial and industrial formations; \$1.4 trillion were residential mortgage debts; and \$870 billion was credit card and other short-term consumer debt.<sup>5</sup> Including borrowing through finance companies, credit unions, savings & loans, etc., the aggregate short-term consumer debt in August 2008 was \$2.58 trillion.<sup>6</sup>

Total US domestic non-financial sector debt at mid-2008 stood at \$31.72 trillion — approximately 229% of GDP. Within that figure, \$13.8 trillion represented household debt, a figure essentially equal to the current annual GDP, and the US financial sector owed \$16 trillion, or 116% of GDP.<sup>7</sup> By comparison, the reserve assets held by US Federal Reserve Banks, in cash, gold and foreign currencies came to just \$70.5 billion in 2007.<sup>8</sup>

But that is just the current snapshot. Since 1974, debt in the US economy has grown exponentially, from \$2.4 trillion to \$49.7 trillion (2070%). Within that figure: foreign debt grew from \$81 billion to \$2 trillion (2488%); state and local government debt grew from \$208 billion to \$2.2 trillion (1050%); federal government debt grew from \$358 billion to \$5.1 trillion (1430%); household debt rose from \$680 billion to \$13.8 trillion (2036%); and financial sector debt expanded from \$258 billion to \$16 trillion (6200%)!<sup>7</sup>

\* A view into this super-exploitation was provided in the essay “Thieves fall out – Growing Imperialist Contention”, posted on Kasama October 28, 2008. Further examples are provided in the next installment of this series.

According to their own definitions, the US economy — the largest and ‘most-favored’ capitalist economy on the planet — is a highly leveraged fiction.

## II

“Investors said, ‘I don’t want to be in equities anymore and I’m not getting any return in my bond positions,’” said William T. Winters, co-chief executive of JPMorgan’s investment bank ... “Two things happened. They took more and more leverage, and they reached for riskier asset classes [i.e. derivatives]. Give me yield, give me leverage, give me return.” — *New York Times*, 9 November 2008.<sup>20</sup>

The drive for profit characterizes capital. But the rates of return being realized within the finance sectors in recent years fall far behind other sectors and typically below 1% (whereas the manufacturing sectors have 4-7% rates of return and petroleum yields a return of almost 10%). This situation exerts pressure in every direction, like air filling a balloon. It is not surprising that one of those directions was on the need for housing, but there’s more to that particular story.

### The toxicity of home ownership

Residential mortgage debt is a specific feature of capitalism and merits additional discussion. Throughout the last century in the US and at an increasing rate since 1945, ideological and economic pressures have been brought to bear on millions of middle strata and working class people to purchase a dwelling. Home ownership has been lauded as an ‘american dream’ and the relatively privileged position of large sections of American society in relation to the rest of the world has supported this pressure. All major US cities are ringed with suburbs that have displaced agricultural land with tract homes, shopping centers, six- and eight-lane highways, and millions of acres of parking lots. Even in the densest cities where apartment dwelling is the norm, rental housing has steadily been replaced with



co-op corporation and condominium property formations, so that even in the City of New York about 35% of the housing stock is now owner occupied.<sup>9</sup> Nationally, in 1890, 37% of non-farm households owned their homes.<sup>10</sup> Today 68% of adults live in 'owner-occupied' housing and of those about 66% have mortgages.<sup>11</sup> For most of those adults, their house represents nearly all of their financial 'net worth'.<sup>12</sup>

In this push toward petty property ownership, capitalism gains twice. In the first instance, it transforms a large population of workers and renters into home owners, who now have a landed stake in the status quo. American history, especially 20th C. history is overflowing with examples of how the minor privilege of home ownership has been marshaled for the most reactionary social movements — and outright pogroms — aimed at people of color, the poor and the disenfranchised. In the second instance, for most buyers, owning a home really means many years (and decades) of monthly payments to a bank that end up equaling twice or more of the appraised price of the dwelling. Housing represents the largest single annual expense for most adults, typically 25-30% of income. Before the current crisis, the development, sale, maintenance and insurance of single family dwellings represented as much as 10% of the US GDP, with new housing starts comprising about half of that figure.<sup>13</sup> The rising rate of mortgage delinquencies is framed by these social features.

The current crisis has already forced millions of those home owners into mortgage default and wiped out whatever financial stake they held in the house or apartment. For them, homelessness is a growing reality. For millions more, the great devaluation of housing means that they are now chained to their dwelling, unable to recover anything close to the amount of money they still owe the bank on their mortgage. Current estimates are that 20% of current mortgage borrowers owe more to the bank than their home is worth, and that number continues to grow.<sup>11</sup>

A recession in housing began in late-2006 with the drop-off in unit prices and a growing stock of new homes that had been built on speculation, especially in Arizona, Florida and California. An important factor in this was the rise of the Federal Reserve System's re-

serve deposit (aka Fed Funds or inter-bank rate) interest rate\* which, among its other effects, is the base rate with which banks calculate their own rates, including those for short-term credit and adjustable rate mortgages. The Fed steadily lowered its reserve funds rate (as a stimulus) during the last recession so that it was at or below 1.25% throughout 2003. From mid-2004 forward, the Fed began raising this rate again and by late 2005 the reserve rate was back up to 4.25%. Perhaps recognizing this as 'counter-stimulating', the Fed again gradually lowered its reserve deposit rate, to 3% on January 30 and 2% on April 30, 2008.<sup>14</sup> By that time, however, the chain-reaction of delinquencies and defaults was well underway.

As the credit crisis intensified through 2008, the growing number of mortgage defaults was chronicled by newspaper accounts of people simply 'walking away' from their defaulted mortgages, abandoning their former homes in despair, despite the wages they had already paid over to the banks. As the crisis deepens, despair may transform into something more volatile, with who knows what as its object.

“[The] solution of the housing question by means of chaining the worker to his own 'home' is arising spontaneously in the neighborhood of big or rapidly rising American towns ... the worker must shoulder heavy mortgage debts in order to obtain even these dwellings, and now become slaves of their employers for fair. They are tied to their houses, they cannot go away, and must put up with whatever working conditions are offered them.” (Engels, *The Housing Question*, “How Proudhon solves the housing question.” note by Engels to 1887 edition.)

\* The Federal Reserve System requires commercial banks to maintain funds on deposit in the regional Federal Reserve banks to offset their own deposits and other assets. This was implemented as a guarantee against bank failures that typified the depression of the early 1930s. The Fed then pays interest to the banks on these reserves. That interest rate is the 'federal funds rate'. The prime interest rate is an average of the best commercial bank lending rates in effect at any one time — typically 3 to 4 percentage points above the 'Fed Funds' rate.

## To the ends of the world

“The first act of the agricultural revolution was to sweep away the huts situated on the field of labour. This was done on the largest scale, and as if in obedience to a command from on high. Thus many labourers were compelled to seek shelter in villages and towns. There they were thrown like refuse into garrets, holes, cellars and comers, in the worst back slums.” (Karl Marx, *Capital*, Vol. 1, Chapter 25, “The General Law of Capitalist Accumulation.”)

The desperate conditions being created by ballooning mortgage payments and increasing numbers of defaults and evictions in cities (and suburbs) across the USA provides a glimpse into just one of the ways capital literally herds people about the planet. It is not just that international capital produces a dramatic and harmful effect upon the lives of billions around the world but that it does this as a matter of course in its continual grasp for surplus-value.

Throughout the past century, as agricultural economies have been displaced with cash crop monocultures and other ‘Green Revolution’\* innovations, throughout the ‘developing’ world of subaltern states and neo-colonies, hundreds of millions of people have been driven out of rural areas into urban ones. According to the UN, between 1975 and 2005, urban populations in the ‘less developed’ world regions grew from 816,725,000 to 2,264,787,000.<sup>15</sup>

Approximately 75% of the population in Latin America and the Caribbean live in cities as do a third of the populations of Africa and Asia. Between 1975 and 2005, the population of Mexico City grew from 10.6 to 18.7 million; Karachi (Pakistan) grew from 3.9 to 11.9 million; Manila grew from 4.9 to 10.7 million; Krung Thep (Bangkok) grew from 3.8 to 6.5 million; Jakarta grew from 4.8 to 8.8 million; Delhi grew from

\* The Green Revolution describes the compulsory introduction of intensive cash-crop and industrial farming in the developing states by late-20th C. imperialism, through its various governmental and NGO agents: the IMF, the World Bank, the US Agency for International Development, etc. These policies were presented by USAID as a road to food self-sufficiency and as counterpoint to the anti-colonial struggles sweeping through Asia, Africa and Latin America in the 1950s and 1960s.

4.4 to 15 million; Mumbai (Bombay) grew from 7 to 18.2 million; Lagos grew from 1.8 to 8.7 millions.<sup>15</sup>

But these growing urban populations are not mainly moving into or building expanses of single-family bungalows or large apartment blocks. Quite the opposite, the urban centers in most of the the ‘developing world’ (the neo-colonies and former neo-colonies of Euro-American imperialism) are ringed with shanty towns in which millions and tens of millions of people try to subsist without sanitation, without drinkable water, in patched-together shacks built from recycled trash.

The World Bank considers ‘poverty’ in the developing world to be an intake equivalent of \$1.25/day and estimates that 1.4 billion people try to survive in this condition. Further, 2.6 billion people struggle to survive on the equivalent of less than \$2/day. (By this logic, if you consume more than the equivalent of \$1.25/day, you are not poor.)<sup>16</sup> And so, a ‘lucky’ subset of the new urbanites is employed for a few dollars per day churning out electronic gadgets, athletic shoes and clothing; driving a truck or loading ships on the dock; or perhaps working in a smelter or refinery, processing raw materials for export from these ‘emerging markets.’

In these parts of the world, neo-liberalism produces grinding poverty as the necessary by-product of its accumulation of super-profits; “Give me yield, give me leverage, give me return.”

Nigeria, for example, with a population of 141 million is the most populous country in Africa. It has proven oil reserves of 36 billion barrels and natural gas reserves of 100 trillion cu ft. At one time many decades ago, it was agriculturally self-sufficient, but as a colony of the UK and then neo-colony of the UK and US, its agricultural sectors were redirected to producing cash crops such as cocoa and rubber, and raising poultry for export. Those sectors have been in decline in recent decades as international capital has sought out cheaper and alternative commodities elsewhere.

The UK and US remain Nigeria’s largest trading partners, primarily in the form of petroleum products. Natural resources - petroleum (81%) and minerals (8%) - make up most of sub-Saharan Africa’s exports to the US, and 60% of that oil comes from Nigeria.<sup>21</sup>



Nigeria's GDP is \$99 billion; average life expectancy is 43.7 years.<sup>17</sup> ExxonMobil extracted 416,000 barrels/day from Nigeria in 2007, with an average net return of \$17.37 per barrel,<sup>18</sup> meanwhile the workers who drive petroleum tanker trucks in Nigeria are paid the equivalent of 3.85 US\$/day.<sup>19</sup>

## Yields from an 'emerging' economy

"We had no punch-out time. Sometimes we would work through the night until dawn." — textile worker in Guatemala City.<sup>23</sup>

If you live in the USA, chances are good that some of the clothes you wear were made in Guatemala, Honduras or another of the Central American economies, where scores of textile factories produce finished goods for name brands including Dockers, Fossil, Hanes, Levi's and Wrangler. The average wage among the 114,000 Honduran textile workers is the equivalent of about US\$7/day (about 60¢/hour for a 12 hour shift).<sup>22,23</sup>

Officially, 40% of Latin America is below the 1.25/day poverty level, with economies that function largely as stores of raw material (oil, minerals, cash crops) and as sites for maquiladoras in 'Free Trade Zones' where foreign capitals extract super-profits from the local working class. (The 'free' in 'free trade' means free of trade restrictions, taxes or import tariffs, such as when shipped between CAFTA or NAFTA states.)\*

In addition to providing opportunities to work 12 or 14 hour shifts at minimal wages, the Central American Free Trade Agreement requires signatories to 'privatize' national telecom, energy and banking sectors, and adroitly excludes any definition of 'employment discrimination' from its discussion of labor law. About 80% of the workers in the textile and apparel maquilas are young women, whose conditions of employment typically include mandatory pregnancy testing and coerced use of birth control pills to ensure they won't take maternity leave.<sup>23,24,25</sup>

\* CAFTA stands for Central American Free Trade Agreement and includes the US, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. NAFTA stands for North American Free Trade Agreement and includes the US, Mexico and Canada.

The global apparel and textiles industry is a \$1.6 trillion/year process. Almost 35% of that value is created in the Americas.<sup>31</sup> Several large apparel companies, including Hanesbrands and Gildan Activewear have subsidiaries in these countries, but an important characteristic of the sector is factories that operate under contract to the big clothing monopolies. The ownership of these operations often involves still other foreign capitals. For example, about a third of the operations in Guatemala City are owned by Korean textile concerns. Chinese firms also have factories in Honduras and Guatemala and use Panama as a base to re-export to other CAFTA states.

Textile production circuits are classic examples of neo-liberal out-sourcing. The manufacture of brand-name jeans might involve an order for denim produced in Mexico from cotton grown in Peru. The fabric is then shipped to Guatemala for cutting according to computer-aided designs from Europe. Those pieces might then be sent on to the Dominican Republic for final sewing and packaging before ending up in stores in the US or Canada.<sup>26,27,28</sup>

Just over one-half of the T-shirts sold in the US are produced by workers in Central America.<sup>29</sup> Meanwhile workers and peasants in Latin America and Africa clothe themselves with used garments purchased from dealers who are supplied by brokers who buy up the surplus stocks of Goodwill Industries and Salvation Army thrift shops in the US.<sup>30</sup>

The condition of the textile sector in Central America is a sub-set of the methods by which capitalism impoverishes the overwhelming majority of people on the planet. Capital expands into every available corner of the globe. In the neo-colonial period, the process of enmeshing 'emerging markets' has enlisted the helping hands of local compradors and oligarchs and military juntas. But none of this 'progress' would arrive without the use or threatened use of machine guns, cruise missiles, 2000-pound bombs, and the expeditionary armies of the imperialist states themselves.

### III

Capital roams the planet seeking out markets to acquire and human labor to exploit. Success is the ability to yield super-profits. This neo-liberal dystopia comes to define every aspect of 'developing world' economies. The methods and scale of exploitation engineered in Central America by US and other capitals is typical of imperial socio-economic relationships established throughout Asia, Africa and Latin America.

At the same time that Guatemala provides sweatshops to the global textile sector, it provides a market for US agribusiness which — thanks to free trade agreements — can now export cotton, wheat, beef and processed foods into Guatemala and all of Central America. This trade will further ruin the already-stunted local agricultural sectors which cannot compete with large-scale industrial agri-business. This same dynamic also increases pressure on Guatemalan agriculture toward growing cash-crops, such as sugar cane for ethanol production in the US, rather than grains, vegetables or fruits for local consumption.

Just before the current financial crisis erupted, some of the biggest US and European banks were embroiled in what one observer called "a battle over the best assets in Latin America's last big banking opportunity,"<sup>32</sup> a mad dash to acquire stakes in the financial sectors throughout Central and South America. During the last half of 2006, HSBC bought up Grupo Banistmo (Panama) and Citigroup acquired both Grupo Financiero Uno (multi-national) and Grupo Cuscatlan (El Salvador), while Scotiabank bought Banco Interfin (Costa Rica) and GE Money (division of General Electric Co.) bought 49.9% of BAC International Bank (Panama).

Likewise, infrastructure has been mis-developed for as long as Euro-American colonialism and its local compradors have ruled the region. What surplus there is left behind in the country is expropriated by the local oligarchs and their military governments. In Guatemala, for example, that means primitive roads, little or no electrification, no sanitation or water systems in rural areas, and so on. The priorities for the government are in developing industrial parks for foreign-owned ma-

quiladoras, building new airports and expanding the existing seaports to service import/export shipping, or making local improvements to telecommunications that can support 'call centers' for foreign businesses.<sup>33</sup> But even making basic improvements to infrastructure betrays the inequity of global capitalism. One maquiladora, the Villa Nueva textile mill, now gets its electricity from a re-commissioned rust-encrusted coal-fired power plant that was shipped in pieces from the town of Turners Falls, Connecticut for US\$22 million.<sup>34\*</sup>

### The neo-liberal paradigm

Neo-liberalism as an economic, political and ideological framework emerged in the mid-1970s. It privileges 'free market' over so-called 'demand side' capitalism which typified US state policies such as in the 'Great Society' programs of the 1960s and the 'New Deal' programs of the 1930s. Politically, neo-liberalism was ushered in by Ronald Reagan in the US and Margaret Thatcher in the UK, the latter declaring that "There is no such thing as society. There are individual men and women, and there are families."

Neo-liberalism includes a powerful ideological component, therefore, which has preceded its economic forays and has been used to cover its tracks in the wake of its repeated failures (the 80-82 recession, 1987 equity market collapse, the East Asian financial collapse of the late 1980s, the US savings bank collapses of the late 1980s and early 1990s, the 90-92 recession, the ITC/'dot.com' collapse in the mid-90s, the Enron/WorldCom/Tyco scandals of 2001-02, the 2001-04 recession, etc.) This ideological element deprecates 'society' and 'citizen' in favor of disparate groups of individual consumers, whose chief goal in life is to consume more. In academic circles, neo-liberalism has found resonance among certain 'post-modernists' who likewise situate the individual as an atom within a loose constellation of co-consumers, each with their own proclivities and market-niche identities.

\* Recycling the discards of the imperial metropolises is common practice. For example, 90% of the textile machinery in Thailand is second-hand, and 35% of machinery imports to Morocco are used equipment. The German social research firm Adelphi Research estimates that this older machinery requires 20% more energy to operate than would new equipment.<sup>33</sup>

The neo-liberal 'supply side' economic policies of capitalist states have included cannibalizing public infrastructure, deregulating or reducing existing state oversight responsibilities (such as in finance, common carrier transport, communications), and the sell-off of publicly held assets, such as water supplies, telecom infrastructure, broadcast communications, and so on.

These sell-offs should be understood as methods for accumulation by capital, as well as for pursuing ideological schema. Indeed, these accumulation activities further reveal just how moribund imperial societies are that they turn to feed on their own infrastructures in a desperate search for profits. For examples, during the period 1983-2005, the deregulation of the global telecom sector enabled no less than 20,210 mergers and acquisitions worth \$4.3 trillion; the global broadcast communications sector was reformed through 10,233 deals worth \$2.1 trillion.<sup>35</sup> These examples are joined by recombinations and sell-offs of rail and air transport, of water and sewage treatment operations, of electricity generation utilities, of public lands and seabed to the mining and oil sectors, and so on. This is the best of all possible worlds or, more accurately, the best that can be done with a stagnant capitalism.

### The metrics of success in the BRIC markets

Extending out from the imperial metropolises, neo-liberal capitalism attempts to refashion the world in its image. While each regional or local formation has its own important specificities, the common feature is the parasitic feeding off the local working class and peasantry. The metric for capital 'success' in the 'emerging markets' of Brazil, Russia, India and China (BRIC) is the extent to which imperialism has reshaped those economies in its interest and distorted the social relationships that preceded its arrival.

In China, 30 years after the counter-revolution, a new big bourgeoisie has emerged along with increasing stratification and oppression. In 2004, the Chinese proletariat manufactured 75% of the world's toys, 58% of the world's clothes, and 29% of the world's mobile telephones.<sup>36</sup> Average per capita income was 2765 yuan (about US\$400). World Bank analysts estimate that in 2004, unemployment for those under 60 years

old stood at 30%, a figure that equates to hundreds of millions. Using the threshold of \$1.50/day, the poverty level among city dwellers in 2004 was 13.5% and among the rural population it was 22.4%.<sup>37</sup> Meanwhile, the anarchic expansion of industrial production spews huge amounts of toxic wastes into ground water and the atmosphere. An estimated 98% of the population is continually breathing polluted air and as many as 400,000 die each year as a result.<sup>38</sup>

The ratio of risk to super-profits, and the importance of this equation to imperialism, is further illustrated by the Brazilian economy. On one hand, imperialism lauds Brazil as a key 'emerging market,' full of opportunities for exploitation and resources for capital to extract. It is the largest economy in South America, with a GDP of \$1.3 trillion (larger than all other South American economies combined) and a recent GDP growth rate of 5.4%. Comparatively, Brazil is highly and diversely industrialized (about 29% of GDP), and has been growing rather than contracting. For instance, the state-owned company Petrobras — which extracts and refines petroleum globally — had 2007 revenues that were one-fifth to one-third of any one of the three major oil monopolies (Exxon, Shell, BP), but its rate of return was twice that of BP and 50% higher than Exxon.

However, Brazil presents capital with various obstacles to the neo-liberal model. The distended economy has by-passed most of the people of Brazil, where official unemployment stands at 9.5% and 31% live below the World Bank's poverty line (of US\$1.25/day). These crushing conditions of life, needless to say, militate against widespread participation as 'consumers' in the neo-liberal model. In fact, the global business consulting firm McKinsey & Co. estimates that more than one-half of the Brazilian work force — and up to 90% in rural areas — are working 'off the books' and outside the legal economy. McKinsey estimates that this so-called informal economy accounts for 40% of Brazil's gross national income! This dysfunction, compelled by the proletariat's inability to find 'legal' work as wage slaves, in turn deprives foreign capital and the Brazilian ruling class their full measure of expropriated surplus. McKinsey & Co. advises that the Brazilian

state improve its judicial mechanisms for finding and prosecuting the poor, following the example of Alberto Fujimori's fascist government of early 1990s Peru.<sup>39</sup>

One of Brazil's success stories has been its early development of a bio-fuel sector. Unlike the ethanol sector in the US which is based on corn farming and which requires at least as much fossil fuel to produce what it might replace,<sup>40</sup> Brazil's sector is based in sugar cane, with which it has emerged as the leading exporter of ethanol. Similarly, Brazilian soy cultivation has been fed into producing bio-diesel fuel. As in other agricultural sectors, the Brazilian capitalists and their global investors (such as BP and other major oil companies) have expanded arable land at the expense of the Amazonian rainforest and the Cerrado savannah (described by conservation biologists as the most diverse grassland on the planet).<sup>41</sup> Recommendations (from IMF, World Bank, et al) that Brazil's ruling class expand ethanol production and export that onto the world market are bundled with requirements to turn yet more arable land over to cane growing and the infrastructure to support it. Thousands of square miles of Amazonia are cleared each year for agriculture; nearly 2,300 square miles in the last four months of 2007.<sup>42,43,44,45,46</sup> At the same time, Brazil's sugarcane workers are paid about US\$1.35/hour and as many as 500,000 of them are expected to be thrown out of work as the sector is further mechanized.<sup>47</sup>

India, the "I" in the BRIC acronym, is upheld as another example of a 'developing' economy meeting with neo-liberal success as a site for foreign capital investment. There the imprint of its English-speaking colonial past is especially evident in the siting of 'back-office', IT and customer service call centers for US and UK banks and other corporations.

In 2008, as many as 1.5 million worked in India's IT and business-process sector. These services represent one of India's biggest exports and produce about \$40 billion in annual revenue. A software developer with an engineering degree might earn the equivalent of \$6,600/year (averaging \$2.80/hr for the typical 2,350 hour year). The sector is exempt from labor regulations limiting work-day hours and overtime pay, but even so, salaries are higher than the \$5.50/day average income

'enjoyed' by the great majority (74%) in an economy with tens of millions of unemployed adults.<sup>48,49</sup>

While the total amount of foreign direct investment in India amounts to 'just' 1% of 2007 GDP, those tens of billions of money-capital are joined with billions more and 'revitalized' in some of the most hazardous and environmentally dangerous manufacturing processes. The very word Bhopal instantly reminds people around the world of the terrible industrial disaster at a Dow Chemical plant in 1984 which resulted in 22,000 deaths and left tens of thousands more permanently disabled. (Dow shielded its stockholders from litigation by declaring bankruptcy.)

The chemical industry continues to be an active part of the Indian economy, and the conditions that created Bhopal are still evident in cities such as Ankleshwar, site of the largest industrial estate in Asia and an estimated 1700 chemical factories producing dyes, paints, fertilizers and basic chemicals for the global market. These plants discharge an estimated 250 million liters of effluent each day and another 50,000 tons of solid waste annually, often directly into ditches and waterways without treatment.<sup>50</sup> Many of these are local or regional concerns, but alongside are subsidiaries of multinational chemical and pharma companies such as Ciba and Novartis.<sup>51</sup>

Indeed, 'success' in Brazil, India and China means ever-increasing super-profits extracted from super-low wage basic industries such as metals and chemicals, and from local natural resource extraction. This super-exploitation has provided the 8-10%+ annual growth rates much coveted by international finance capital.

But these same economic sectors are no less immune to the present global economic crisis. The metals sectors in both India and China are now being shaken by the precipitous drop-off in world-wide demand as construction projects are deferred or abandoned, truck and auto factories shuttered, and infrastructure projects cancelled. Indian truck sales have fallen off by 50% over a year ago, Tata Steel has cut its planned output by 30% through next March, 150 blast furnaces in China have been closed in recent months, and the two biggest auto concerns in Brazil — Fiat and GM — have reduced projected output and closed down production



units.<sup>52,53,54,55</sup> And for the first time in its history, the US Federal Reserve Bank agreed to loan \$30 billion to each of the central banks of Brazil, Mexico, South Korea and Singapore, in an effort to 're-liquify' those money markets, and keep them tightly joined to the US empire.<sup>56</sup>

Meanwhile, for the masses of people in these emerging markets, life remains hellish. While Western commentators discuss an emerging "iPod India" — alongside an existing "Mother Theresa India"<sup>57</sup> — for the vast majority of people in the 'emerging' and the developing world the chief problem of the day is basic survival. Since January of this year, the value of the rupee has fallen 20% against the US dollar and inflation has hovered around 11% all year.<sup>58</sup> As noted above, hundreds of millions of workers are unemployed throughout Brazil, China and India. The schemes promoted by the local ruling elites for further enmeshing their economies in global capitalism bring nothing but more poverty for the masses.

Where does this lead? Consider two last and very recent examples. The Indian state of West Bengal acquired the small plots of 13,000 poor peasants with promises of future employment for them or their children in a proposed Tata Motors factory. The company changed its plans in September and decided not to open the plant after all, leaving 13,000 more peasants landless with no opportunity to reclaim their lost land, which is now devastated by the construction work anyway.<sup>59</sup> Laid-off workers at the Graziano Trasmissioni automobile parts factory near Delhi met with management September 24 to learn the terms of their possible reinstatement. The workers who had been paid the equivalent of \$10/week were enraged by the 'job offer', which included a pay cut, and chased the factory manager from the factory, where he was beaten to death by an angry crowd.<sup>60,61</sup> Factory owners across India expressed outrage at this 'lynching' and began or increased deployment of armed guards at their factories.<sup>62</sup>

## Arms and the state

"Here was a society which by all its economic conditions of life had been forced to split itself into freemen and slaves, into the exploiting rich and

the exploited poor; a society which not only could never again reconcile these contradictions, but was compelled always to intensify them. Such a society could only exist either in the continuous open fight of these classes against one another, or else under the rule of a third power, which, apparently standing above the warring classes, suppressed their open conflict and allowed the class struggle to be fought out at most in the economic field, in so-called legal form. The gentile constitution was finished. It had been shattered by the division of labor and its result, the cleavage of society into classes. It was replaced by the state." (Frederick Engels, *Origins of the Family, Private Property, and the State*, Chapter 9: "Barbarism and Civilization.")

An important illusion of contemporary class society, especially in America, is that the state exists as a third force in society, the neutral arbitrator between exploited and exploiters. The brutal truth is that the state exists to enforce the rule of the exploiting class over all others. It does this through laws, courts, prisons, police and its organized military.

In the age of imperialism, this resort to armed force extends globally. Mid-19th century 'gunboat diplomacy' and the threat of force has been steadily replaced with large and complex 'force projections' that combine infantry, artillery, long-distance bombers, aircraft carriers and battle cruisers, capable of delivering tremendous destruction upon any rebellious or malfunctioning sector of the empire. This was an important part of the gangster logic behind the US war against Iraq in 1991, and it was reemphasized by war minister Rumsfeld's vow to deliver 'shock and awe' as part of the invasions of Afghanistan in 2001 and Iraq in 2003.

A sub-narrative within the view of the state as 'impartial' or ultra-social is the concept that a 'military industrial complex' likewise exists as a supra-social formation, unduly influencing or even directing government and the economy, apart from the 'regular' capital formations. The contemporary avatar for this 'complex' might be Dick Cheney, who together with Donald Rumsfeld, is often credited with crafting current US military policy and the expeditions in southwest Asia.

It is certainly true that Cheney the imperialist bourgeois is a ruthless and malevolent capitalist. He



does personify US imperialism for millions around the world. But it is dangerously mistaken to conclude from his performance that changing the cast means changing the function of the state and its armed forces. The danger of this illusion will soon be demonstrated by the actions of President Obama, Secretary of State Clinton, Secretary of Defense Gates (!) and the rest, continuing in southwest Asia and quite possibly expanding from there.

### Not 'good business' but the drastic measure of an empire

If anything, Bush, Cheney, Rumsfeld, Wolfowitz, and company have demonstrated that war is not just another sector of global business. Remember that Cheney and others not only predicted that the expedition against Iraq would be short and swift but that it would 'pay for itself' via the oil fields and refineries that would be seized intact by the invading armies. Five years later, Iraq's economy is non-existent, its oil production is a minor fraction of even the stunted pre-2003 levels. Iraq is among the top five 'failed states' as ranked by the US think-tank Fund for Peace. Far more serious, the social fabric of Iraq has been completely destroyed and replaced by protracted civil war. The CIA Fact Book reports that Iraq's current GDP is about \$60 billion with an unemployment rate of almost 19%. How they have calculated those figures is undisclosed. But for Afghanistan, six years after the installation of the current comprador regime, the data is much worse: a GDP of just \$8.3 billion, unemployment of 40% and an official rate of poverty (below the \$1.25/day World Bank level) of 53%.

Most capitalists would probably prefer 'profits without tears,' but that isn't a result produced by a system of exploitation and oppression. If now sections of the bourgeoisie have second thoughts about their policy in southwest Asia, they didn't express any when the die was cast in 2001 or when it was rolled again in 2003. At those points, they were much more concerned about consolidating their position as chief imperialist power, including their domination of the central and southwest Asian oil fields.

It is true that the military (and ergo war) provides a market for various sectors of capital. Specifically in the US, several monopolies — Boeing, General Dynamics, Lockheed Martin and Northrop Grumman are four examples — have 'defense' and aerospace production as their core operations. This sector collected revenues of \$329.1 billion in 2007 and is expected to grow by 6.3% through 2012.<sup>64</sup> But this sector — accounting for less than 3% of GDP — is not so large as to dominate or direct society, is it?

Of course, not all military spending goes into that 'defense' sector. Billions are spent on the wages of soldiers and sailors, and on the operation and maintenance of the more than 700 military bases around the world. Several billion are also expended annually at the Department of Energy, producing, testing and maintaining nuclear warheads for ICBMs, SLBMs and cruise missiles. Including expenditures for the expeditions in Iraq and Afghanistan, the non-profit Center for Arms Control and Non-proliferation calculates the real military budget for FY 2009 is \$711 billion.\*

Such an amount certainly impacts the larger economy and society. The fact that the government is spending upwards of \$195 billion annually to wage wars against Iraq and Afghanistan has a significant effect on national debt, on the financial bond markets, on international commerce, and so on. That \$195 billion is not 'productive capital' and the concept of military service as some deranged Works Progress Administration\*\* is full of flaws. The National Guard certainly wasn't coming to the aid of the displaced immediately after Hurricane Katrina, for one recent and glaring ex-

\* Others have calculated 'war costs' as an even larger sum. Chalmers Johnson estimates the 2008 military budget at \$1 trillion ("The economic disaster that is military Keynesianism." *Le Monde Diplomatique*. February 2008), and Thomas E. Woods, Jr. repeats estimates by Joseph Stiglitz that actual annual war costs are \$2 trillion by including 'the economic impact of lives lost, jobs interrupted and oil prices driven higher' ("What the warfare state really costs." *LewRockwell.com*. 12 September 2007.)

\*\* The Works Progress Administration — WPA — was a New Deal program implemented in 1935 to organize infrastructure renewal as well as new construction, such as building post offices and other government buildings.

ample. (It did play its intended role as occupying army, however.)

Throughout most of the 1800s, the principal expenditures of the Federal government were military-related and funded through customs duties, excise taxes and the sale of 'public' lands (inhabited by Native Peoples). The 1860-1865 civil war and then advent of an actively imperial mission in the later 1800s required the Federal government to borrow in order to pay for increasing military expenses. The national income tax was implemented to address this imbalance, but was quickly subsumed by the huge deficits incurred during 1917-1919 (US participation in the world war). Since the mid-1930s (the advent of Social Security income) and then again in the mid-1960s (the addition of Medicare and Medicaid), Federal expenditures tilted toward these mandatory social service programs. The Federal government has incurred budget deficits and borrowed to pay its expenses throughout the 20th century until the 1998-2000 period, when a slight surplus was realized.<sup>65</sup> Since 2000, the Federal debt has grown to the current level of 60% GDP.

Within that current level of debt, military spending represents a significant but minority percentage. Outlays for 'national defense' in 2004 were 3.9% of GDP. The estimate for 2009 is still 'just' 4% GDP. Notably, this rate is several percentage points lower than the spending incurred during the 1950s (ranging from 5.0% to 14.2%) and the 1960s (7.4% to 9.5%), when the US actively confronted the Warsaw Pact bloc, invaded Korea, occupied Vietnam, and was engaged in other 'counter-insurgency' wars in Latin American, Southeast Asia and Africa. During Ronald Reagan's first term and build-up of strategic and nuclear forces (1981-1985) defense outlays rose from 5.2% to 6.1% GDP (282.2 to 356.5 billion in Y2K dollars).<sup>65</sup>

Comparing military spending with total government outlays provides a different perspective. Here we see the burden that a war footing places on the state, and through it, the economy as a whole. Recall that many economists point to the USSR's military spending burden as a chief cause of its dissolution in 1991. The US was accumulating a similar debt burden, but it

was sitting atop a much more parasitic, more extractive empire, which it could 'collateralize.'

During the height of the war against Vietnam (1965 - 1971) military spending comprised an average of 44% of total government spending, but it declined to 34.3% in 1972 and further to 26% by 1975. During the Carter administration (and anti-colonial upheavals in the Philippines, Nicaragua and Iran), military spending averaged 23.1% of total government outlays. During Reagan's two terms, war spending as percent of total outlays gradually increased from 23.2% in 1981 to 28.1% in 1987. During Bush senior, the military portion actually declined from 26.5% in 1989 to 21.6% in 1992, and has continued to decline in relation to overall government spending to its current point of about 17%.

Since about 1994, the US government has tried to maintain a 'steady-state' military program. This has been criticized by neo-conservatives as a missed opportunity given the dissolution of the Warsaw Pact and the USSR, but it also reflects the realities of empire. The heightened outlays during the second half of the 1960s placed tremendous pressure on the national economy in the form of increased public debt which found twin expression in price inflation and currency devaluation. This pressure was so significant it prompted the US to abandon a silver and gold backed currency and consequently prompted the collapse of the Bretton Woods arrangement. The renewed build-up during the 1980s in direct and heightened confrontation with the USSR, both in terms of the threat of all-out war and in regard to 'proxy' battles around the world, also put great pressure on the US financial system, including more inflationary pressure.

In short, high military spending is not sustainable and is only to be incurred by the empire under special circumstances: when the empire is being gravely threatened, either by other imperialists or by significant revolutionary upsurges in the neo-colonies. War in itself is as risky as geo-politics can get. There is no guarantee who will prevail, the longer it lasts the higher the toll it places on the empire, and even when the outcome has been 'favorable' in the past, the economic damage has still required years to repair.

## The war they are planning to fight

A further sign of what the planners are planning for is seen in how the state is directing its actions now. As is well known, for example, the US is pressing some of its junior partners in NATO (Poland, the Czech Republic) to site a new Ballistic Missile Defense system on their territories. Few seriously believe the US claim that these weapons are intended to defend Europe from Iran, especially with the US Fifth Fleet sitting in the Persian Gulf and the Sixth Fleet in the Mediterranean. This missile defense program is not confined to the missiles and radars proposed for eastern Europe, it also includes space-based radars, space tracking & surveillance systems, 'multiple kill vehicles' and other components first envisioned as part of the 'strategic defense initiative' (aka 'star wars system') of the 1980s.

Other weapon systems in the 2009 budget include 59 new fighter and 22 new attack aircraft, an undisclosed number of B-2 bombers, an SSN-774 attack submarine, a CVN-21 aircraft carrier, 207 Tomahawk cruise missiles, 24 Trident II D-5 missiles, 6400 more 'smart bombs', 750 short-range guided missiles ('stand off' systems), 850 unmanned (e.g. Predator, Reaper, Raven) aerial vehicles as well as an assortment of invasion and occupation equipment; troop landing ships, armored personnel carriers, humvees, helicopters, etc.<sup>66</sup>

While Tomahawk cruise missiles and B-2 bombers are designed for either nuclear or 'conventional' warfare, the sole purpose of the Trident II D-5 missile is to carry MIRV (multiple-warhead) nukes. In addition to the Department of Defense budget, another \$56 billion at the Department of Energy is devoted to providing the materials for nuclear weapon and reactor systems.

As has also been widely noted, at \$711 billion, the aggregate US war budget far outstrips that of any of its perceived rivals. It is six times the military budget of China, ten times that of Russia, thirteen times that of France, almost nineteen times that of Germany, thirty-one times India's military budget, ninety-eight times Iran's military budget, etc. etc.<sup>66</sup> In short, the US war preparations are not planned in reaction to a specific threat, they are intended for preemptive war fighting

— the current, explicit war-fighting doctrine of the state — and the strategic maintenance of the empire.

In this light, Wesley Clark's November 18 opinion piece in the *International Herald Tribune* is both noteworthy and ominous in emphasizing that "aiding the American automobile industry is not only an economic imperative, but also a national security imperative." He was not primarily referring to the production of HUMVEEs.<sup>67</sup>

Importantly, however, there is no pre-destined arc that either US imperialism or capital as a world system is following. Each economic crisis and each war contains as much of an opportunity for demise as for any other outcome. In the present period, racked with deepening financial crisis, imperialism will be increasingly challenged to take extreme measures — far more 'extreme' than bailing out even the biggest bank or automotive company. Those measures may not be on the table right now, but they are surely in the top desk drawer. (That is, after all, why 'defense planners' plan.)

## Challenges and Opportunities

The first part of this essay demonstrated how financial derivative trading arose as a method for containing international risk as capital moves out from under the political umbrella of state superstructures. Likewise, the imperialist military functions as an agency to control risk through direct force.

Today, US imperialism is in the twin grips of ever-deepening economic crisis and two expeditionary quagmires that it is not winning but is not yet ready to concede. Both of these problems are seen to be of its own design, results of its rapacious nature as expressed militarily, geo-politically and financially. It is increasingly challenged for its dominant position within the global capital system, both by imperial competitors (France, Russia, Germany) and by those who would like to exert their own regional or wider hegemony (China, India, Brazil, Venezuela). Sarkozy convenes an economic summit without the United States.<sup>68</sup> India's defense budget is on course to exceed the UK's by 2013.<sup>69</sup> The US pushes for NATO's expansion, Germany and Spain push back.<sup>70</sup> Russia sells Venezuela \$1 billion in arms and they hold joint naval exercises in the Carib-

bean.<sup>71</sup> And empire is most importantly challenged by those who would dare to put an end to it altogether: the revolutionary people around the world.

The US is accelerating toward a wall. The closer it gets to impact, the more desperate it will become. At that point, the question will not be whether it can 'sustain' war spending of 20, 30 or 40%, but whether it can sustain and grow its empire by throwing the die one more time.

Rather than consider militarism and imperialist war as the project of autonomous actors (e.g. Obama, Bush, Clinton, Reagan), we should understand it as the further extension of the narrow interests of specific aggregates of capital, as an extension of the political interests of a specific ruling capitalist class and, foremost, of their necessity (and desire) to maintain and expand their empire.

In crisis, risk management becomes a class project; the continuation of politics by other, more violent, means.

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