Globalisation: the contradictions of late imperialism

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In the Nineties, multinational corporations vied with each other to take over the industries and services of much of the world. Commentators coined the term ?globalisation? to describe their domination. Keith Harvey explores the roots of this phase of imperialism in the growing contradictions of US capitalism in the decades after the Second World War and concludes that its days are already numbered.

Eleven years ago, visitors to Expo-1992 in Seville commented upon the small and unremarkable United States? exhibition tent amid the grander efforts of most of the rest of the world?s big hitters. On enquiry, it transpired that many of the big names of the US corporate world had decided not to put funds into the enterprise. In this international showcase, Coca Cola and the like simply did not want to appear as US companies; they wanted to be seen, first and foremost, as global companies.

Philip Condit chairman of Boeing said in 1997 that being a global company meant that, ?wherever you operated, people thought that you were a local company?. He sought to emulate BP, the 10th largest company in the world, British-based but globally ubiquitous. HSBC, one of the big four banks in the UK, markets itself as ?the world?s local bank? because it is present in most countries.

Of course, there have been companies with an international presence before, ever since the US firm Singer set up its first overseas operation in Europe in the 1860s. Car giants, electrical goods firms and oil companies have all had a global presence for most of the last century. But, until recently, most could content themselves with secondary dependence on overseas markets, especially US multinationals.

Now that?s all changed. Now, most multinational companies (MNC?s) have to compete in world markets in order to survive. General Electric ? the US electronic giant ? is the world?s biggest multinational with total assets in 1999 of $405 bn and sales of $111 bn. Until he retired last year, Jack Walsh was General Electric?s Chief Executive Officer. In 1997, he explained what drives multinationals to depend more and more on overseas markets:

?There is excess global capacity in almost every sector. Pricing pressures are dramatic across sector after sector. One way of meeting such pressures is to go for the greatest possible scale ? spreading costs and revenues across the world.?

Hence, there are more multinationals than ever before ? 63,000 in 2000 ? up from 7,000 in 1970, and they control a greater proportion of global output and sales than ever before.1 In the course of the last decade, their dependence on foreign markets for sales, assets and employment compared to their home bases has steadily increased.2

Roughly 30 per cent of General Electric?s assets and sales are overseas. This figure grows with each passing year. Today, a number of the other biggest players, such as IBM and ICI, rely for over half of their revenue on foreign sales. More than 98 per cent of Nestlé?s sales are outside Switzerland. Murdoch?s News Corporation empire has 96 per cent of its sales abroad.

These MNCs ? in production, banking, media and retail ? account for two-thirds of all trade. They are also the engines of foreign investment flows. In 2000, the total of Foreign Direct Investment (FDI) soared by 18 per cent to a record $1.3 trillion, 90 per cent of this ($1.1 trillion) took the form of mergers and acquisitions as MNCs sought to consolidate their global position.

Within the 63,000 multinational companies, 100 ? a mere 0.2 per cent ? have assets of $2.1 trillion and, in 1999, sales of the same magnitude. These top 100 companies account for 12 per cent, 16 per cent and 15 per cent respectively of the assets, sales and employment of all the world?s multinationals.

Ninety-one of them have their headquarters in one of the 17 ?Triad? countries (European Union, USA, Japan), a figure which emphasises the dominant role of these countries in the world capitalist order.

Moreover, their share of the top 100 has increased during the last ten years. These are the countries which set the macro-economic policy agenda, control the world?s capital markets and direct the global multilateral institutions such as the World Bank, IMF and WTO.

The wealth, power and reach of the big capitalist corporations are beyond dispute and historically unprecedented. The sheer geographical spread and social depth achieved by the world capitalist market economy over the last ten to twenty years is also generally accepted. This has come to be known as ?globalisation?.

While a good deal of ?we won the cold war? US triumphalism lies behind the term, it is not good enough to dismiss the phenomenon as simply ?globalony?, as merely the ?same old imperialism?, as though little had changed.3

The purpose of this article is to understand the root causes of globalisation and define it more precisely. What propels it and what are its components? How has it evolved? What is its relationship to the concept of imperialism as it has been developed by Marxists since the early part of the century?

In doing this, we can dismiss from the outset the facile, but still prevalent, explanation that ?globalisation is an objective fact, a reflection of dramatic technological change, not policy.?4 This standard refrain from its 1990s evangelists was designed to depoliticise globalisation, to abstract it from the historical, national and class relations within which it took place.

It was meant to disarm the opponents of this corporate dominated process with the idea that technological developments had created a trend to greater international integration which was inevitable and unstoppable, destined to sweep aside all trade union and national government barriers to the movement of capital.

The current malaise refutes this explanation in so far as the technological achievements in transport and communication that have relativised the importance of time and place in economic transactions remain firmly embedded but they have failed to prevent the onset of global recession or de-integration.

On the other hand, these very same negative economic circumstances have prevented the significant introduction of the next generation of technologies (e.g WAP) that promised much in communication terms. In reality, technology is the dependent variable in globalisation, not the independent one

As Robert Went has said: ?The truth is that technological change has only facilitated globalization processes set in motion by conscious political decisions??5 We could add that those ?conscious political decisions? themselves reflected deepseated changes in the US economy which had outgrown the framework of policies and institutions established decades earlier.

In order to understand these ?globalisation processes?, therefore, we have to go deeper into the historical and structural reasons why capitalism expands and retreats, and examine the economic and political barriers that capital confronts and seeks to overcome.

In this, our starting point is the recognition that it is in the very nature of capital to break down every barrier in the way of its further enlargement. Self-expansion is its essence. It cannot be satisfied with merely local, regional, or even national dominance. ?The natural tendency of our economic system, therefore, is to seek to break through the state boundaries? as Trotsky put it.

We first have to explain what historical forms this self-expansion has taken, what barriers it has had to overcome and what conditions allowed for this at some points and not at others. Why, for example, did capitalism regress internationally between 1914 and 1945? What determined the pattern of international capital flows in the post-war boom (1950-71)? How did capital free itself of restrictions inherited from the post-war settlement to spread out rapidly and in more varied forms in the 1970s and 1980s? And finally, what changes in the nature of world capitalism were wrought as a result of the victory of the USA in the Cold War and the subsequent boom in the US economy under Clinton?s presidency?

Imperialism

This is not the first time a big debate has taken place about the significance of major shifts in the capitalist world economy. Around 100 years ago, the term ?imperialism? was coined to describe the emergence of new features in the organisation of capitalist production and finance.

Although they were not the first to use the term, Marxists began to analyse these features in the first decades of the twentieth century.6 They recognised that a major qualitative change in the nature of capitalism had taken place from the 1870s onwards. It was a change which affected both the organisation of domestic production and finance and the pattern of international trade and investment.

Its first and principal cause was the emergence in the main capitalist countries of huge corporations which had cornered their national markets and come to dominate them. Their development, which was an inevitable outcome of competition between the earlier generation of smaller firms, led the bigger capitalists to see the advantage of monopoly. By practically wiping out their domestic competitors, the monopolists could not only reap greater profits from the booms but also survive the slumps that they had learnt to expect from the business cycle.

The original, small-scale, family-owned firm now gave way to large companies owned via stocks and shares. In Germany, this was achieved largely through horizontal integration between firms in the same line of business who either merged or established an agreement on price levels and market share (cartels).

In the USA, from the 1880?s, this was largely prevented by law and so monopolisation took the form of vertical integration. In this, firms swallowed up both their suppliers and the firms to which they sold their products, thereby achieving great savings in transaction costs and boosting profits.

This tendency to concentrate was also apparent within financial capital. The banks developed from being ?middlemen?, used by the family run firms to provide cash to help with their operating costs, into powerful monopolies in their own right. In turn, as they became more and more involved in supplying this investment finance, they sought to gain leverage within the monopolies in order to protect the value of their loans. In some cases, this led to representation on the boards of directors, in others, to equity holdings.

By the time of the First World War, Lenin could observe:

?Finance capital took over as the typical ?lord? of the world; it is particularly mobile and flexible, particularly interknit at home and internationally, and particularly impersonal and divorced from production proper; it lends itself to concentration with particular ease, and has been concentrated to an unusual degree already, so that literally a few hundred multimillionaires and millionaires control the destiny of the world.?7

After the relatively long boom at the end of the nineteenth century (1895 onwards) and the crisis of 1900-1903, monopolies and cartels were recognised as ?one of the foundations of economic life? (Lenin). In the US, in 1904, 1.1 per cent of businesses were responsible for half of all production.

A second, and linked, factor was a massive expansion of capitalism internationally as the monopolies strove for international markets and access to raw materials. In effect, the process of monopolisation rendered the national economy too restricted a sphere of operation within which to make adequate profits.

Between 1870 and 1914, but especially after 1895, this international expansion of capitalist trade and investment accelerated. Horst Köhler, Managing Director of the International Monetary Fund (IMF) even went so far as to say, in a speech in January last year, ?The global economy was actually more integrated at the end of the 19th Century than it is today.?8

Without going as far as that, a recent World Bank report dubbed the period 1870 to 1914 ?the first wave of modern globalization?.9 It explained, ?Flows of goods, capital, and labor all increased dramatically. Exports relative to world income nearly doubled to about 8 percent. Foreign capital more than tripled relative to income in the developing countries of Africa, Asia, and Latin America. Migration was even more dramatic. Sixty million people migrated from Europe, primarily its less developed parts, to North America and other parts of the New World. South-South labor flows were also substantial. The flows from densely populated China and India to less densely populated Sri Lanka, Burma, Thailand, the Philippines, and Vietnam were probably of the same order of magnitude as the movements from Europe to the Americas. The total labor flows during the first wave of globalization were nearly 10 percent of the world?s population.?10

Similarly, Robert Went has pointed out that, in 1913, the ratio of export and import of goods to GDP reached an average of 42.6 per cent for the top half dozen powers. Nonetheless, the most important new feature was that export of capital started to predominate over the export of commodities. During this period, for example, around half of all British savings and profits were channeled abroad. By 1914, the foreign capital stock of semi-colonial countries had risen to 32 percent of their income.

During this period, the imperialist nation states completed their seizure of all of the territories on the planet. As Leon Trotsky noted in 1914:

?The whole globe, the land and the sea, the surface as well as the interior, has become one economic workshop, the different parts of which are inseparably connected with each other. This work was accomplished by capitalism.? 11

However, this internationalisation of capital was not a peaceful, linear process from which all classes and all nation states benefited equally. Rather, the world had become completely divided up between a handful of ?Great Powers?. All the countries excluded from this club became either formal colonies or informal ?spheres of influence?.

The eruption of the First World War announced ? in Trotsky?s words ? the fact that ?the forces of production which capitalism has evolved have outgrown the limits of nation and state. . . .The national state, the present political form, is too narrow for the exploitation of these productive forces.?

In turn, this led to the systematic outbreak of wars and revolutions within this imperialist epoch: wars for the forcible re-division of the world into protected ?spheres of influence? and ?backyards?; revolutions prompted by wartime privations, the collapse of defeated ruling classes and by the injustice of national oppression.

The First World War, however, did not result in the emergence of a clear victor, able to pursue its own economic expansion at the cost of its defeated rivals. Instead, the imperialist powers concentrated their attention on their own spheres of influence, thereby throwing the world economy back decades and undoing much of the first phase of capitalist internationalisation. By the late 1940s, trade, as a share of GDP, was still only back to its level of 1870. By 1950, the foreign capital stock of developing countries was reduced to just 4 percent of income ? far below even the modest level of 1870.

Internationalisation after the Second World War

While there is no question that the decades since the Second World War have, once again, been characterised by increasing levels of international trade and investment, the pattern of this increase has not been uniform. Four quite distinct periods can be identified and, as we shall see, their characteristics are related to the varying roles played by finance capital against the background of a changing international balance of power.

The decades after 1945 saw an almost immediate revival of internationalisation as expressed in both trade and Foreign Direct Investment (FDI). By 1970, international trade had surpassed the pre-1914 levels and its annual rate of increase continued to outstrip the growth in output in subsequent decades. At the same time, however, foreign investment grew even faster and saw ?an annual increase four times greater than the annual growth rate of international trade.?12

The forms of investment were also broader than in the pre-1914 phase, when it was largely restricted to bonds. After 1950, investment abroad in new plant and equipment grew. The impulse for this wave of FDI, which lasted into the Seventies, was mainly the locational advantages of the host countries. Specifically, the countries possessed immobile natural resources or their markets were protected by trade barriers.

Throughout this phase, which it calls, ?the second wave of globalisation? the World Bank admits that, ?most developing countries remained stuck in primary commodity exporting and were largely isolated from capital flows . . . The ratio of FDI stock to GDP of the South was 11 per cent in 1978 ? well below the 32 percent reached in 1914.?13

This trend ensured that the ?second wave globalization was not golden for developing countries?, according to the World Bank. ?The gap between rich and poor countries widened. The number of poor people continued to increase . . . There was little net change in the distribution of income among and within developing countries.?14

The long expansion of trade and investment between 1950-71 took place within a definite policy framework which expressed the priorities agreed upon by the major architects of the post-war economic order at the Bretton Woods conference in 1944. Their overriding concern was to sustain a stable system of international trade and so avoid the calamity of the inter-war years. At this time, the principal role of finance capital, therefore, was to facilitate this resurrection of trade. The General Agreement on Tariffs and Trade (GATT) existed to negotiate an orderly reduction in tariffs, mainly between Triad countries, that is to say, between the imperialist powers. Similarly, the IMF existed to ensure that funds were available to member states to bridge any current account deficits that emerged as a result of a sustained imbalance between a country?s exports and imports, and thereby forestall pressure on the currency.

Most importantly, there was a system of fixed exchange rates between countries, precisely to facilitate the smooth and rapid growth in international trade. This system was underwritten by the United States which possessed the bulk of the world?s gold reserves (accumulated by providing the weapons for the Allies in the war). In 1944, they guaranteed to exchange all dollars at a fixed rate against gold.

As a result of these policies, the direction of investment (which continued up until the 1980s) was similar to that prior to the First World War; most foreign investment was sourced from, and received by, members of the Triad. This shows that the key integrationist dynamic in the world economy throughout this period was between the European Union, the USA and Japan, not between them and the South. As we shall see, this was destined to change.

However, although all this underpinned US hegemony, the very success of the expansion of international capitalism after 1945 inevitably began to undermine it as the basis of this financial might. Investments and aid ensured that, by the late 1960s, more dollars were held abroad than could be exchanged against the US gold reserves at the agreed rate. In 1972, to preserve US reserves, President Nixon abandoned the Bretton Woods agreement and floated the dollar; soon all major currencies were floated.

1972-82, finance capital slips its leash

The break up of the Bretton Woods system of financial controls removed one barrier in the way of the self-expansion of capital. If, hitherto, capital had been forced to be little more than the handmaiden of trade expansion, the removal of controls within the major OECD countries after 1974 liberated it. Capital was now free to diversify its forms and seek out the best returns across the world.

However, even leaving aside the bureaucratically planned economies where few inroads could be made, there was still the problem of how to stimulate demand for such new financial instruments and investments in the rest of the world. The Triad faced continued obstacles in the form of capital controls throughout much of the Third World, as well as trade barriers. World recessions in 1974-76 and again in 1979-82 made such obstacles even more irksome to the major multinationals who were impatient for new markets and new labour forces to exploit. This was made all the worse for finance capital by the inflationary consequences of the Keynesian demand management policies pursued by most governments in response to the recessions.

The 1980s: the neo-liberal offensive

The 1980?s, the decade of Reagan and Thatcher, saw a concerted political offensive by MNCs, governments and the IMF/World Bank to smash down the barriers to their exports and capital in the South. Their objective was to cut operating costs, enlarge economies of scale and to take advantage of authoritarian anti-labour governments.

This was when the IMF and World Bank changed the nature of their operations, reflecting the renewed pre-eminence of finance capital. They used the increasing debt burden of the semi-colonies as a weapon against the Third World; in return for short-term relief they oversaw programme after programme of trade liberalisation, deregulation and privatisation ? all of which were designed to create new profitable opportunities for the MNCs and banks of the Triad.

The implementation of these policies gathered pace through the decade as experience was gained and techniques were perfected. Nonetheless, there were still limits to the reach of finance capital. The first bridgeheads had been established within the bureaucratically planned economies, notably in China?s ?Enterprise Zones? but their economies were, essentially, off-limits and as long as that remained the case, other countries could hope to manouevre between the two great blocs.

The triumph of globalisation

The breakthrough, the qualitative change in the period, came with the collapse of the Soviet bloc, the recession of 1989-91 and the decision to dismantle planning in China and open the country to capitalist investment. 15

The pattern of investment flows was revolutionised, as the western MNCs relocated plants from high-cost home countries, bought up state assets and lent money to foreign governments and firms for export-oriented industrial projects. As a result, manufactures rose from less than a quarter of developing country exports in 1980 to more than 80 percent by 1998.

Similarly, total capital flows to developing countries went from less than $28 billion in the 1970s to some $306 billion in 1997, in real terms. In the process, their composition changed significantly. Official flows of aid were cut by more than half and private funding became the major source of capital for a number of emerging economies.

The composition of these private capital flows also changed markedly. FDI grew continuously throughout the 1990s. In real terms, net portfolio flows grew from $0.01 billion in 1970 to $103 billion in 1996, as new international mutual funds and pension funds helped to channel the equity flows to developing countries. Meanwhile, bank loans decreased.

Most of the upsurge in FDI to the South took place in the 1990s which saw the most rapid increase in foreign capital flows of the whole century.16 In 1990, bank lending, FDI, bonds and equity flows all stood at or around $50bn. Then the massive upsurge began and peaked in 1997.

It was this flood of largely US finance capital which led commentators to coin the term, ?globalisation? to describe the apparently sudden ability of the world?s major corporations to implant their brands and their logos, at will, anywhere in the world.

It was fuelled in the first half of the decade by the selling off of state companies in Latin America and Asia to Triad-based multinationals, as capital controls were relaxed throughout the Third World. There were 1,187 such FDI liberalising measures between 1991-2000. In the period 1994-97, in particular, this led to massive bank lending to Third World companies and domestic banks. This victory for neo-liberalism was symbolised by the transformation of GATT into WTO in 1995.

In the second half of the 1990s, mergers and acquisitions, especially within the Triad countries, accounted for the overwhelming bulk of FDI as stock markets boomed (making more equity capital available) and then the Asian financial crash of 1997 prompted a redirection of speculative capital towards the USA.

The Asian ?meltdown? of 1997 also prompted another shift in world capitalism ? a rapid increase in the tempo of capitalist development in China under the impact of imperialist capital imports, especially American.

After the 1997 crash, capital investment in South Korea and Indonesia, for example, plummeted.17 China by contrast has seen a massive extra influx since 1997 as ?increasing competition, falling transport costs and flagging consumer demand are forcing multinational companies to flock to the region with the lowest production costs.?18 In 2002, foreign investment into China was $52.7bn ? a record.

In its wake, the massive inflows of investment are in turn giving rise to a huge ? historically unprecedented ? wave of commodity exports from China to the rest of the world. Guangdong province exported more in 2002 alone that in the years 1978-90 combined!. Total Chinese exports have doubled in the years since the Asian crash of 1997. By contrast, it took Britain, Germany and Japan 12, 10 and 7 years respectively to double their exports at the height of their economic power in the 19th and 20th centuries.19

Today, more of the world?s population, both in absolute numbers and as a proportion of the total, are being exploited by capitalism than at any time in history. The geographical breadth of capitalist social relations was never more global.

The degree of integration of capitalist nations ? as expressed in the ratios of trade and FDI to GDP ? also reached new heights, even if this took the form of greater regionalisation and one-third of the world?s nations and people were more marginalised than ever before from this process.

Finally, it was in this period, with finance capital triumphant, that the classic features of imperialism, as described by Lenin, re-emerged as the defining features of the world?s economic system. Monopolies were massively consolidated as the core of economic life and, within this, financial conglomerates extended their power as never before; capital export ? with its revolutionising effect on those areas that received it ? reached new heights and, crucially, the world was being re-divided up once again as the USA and Europe vied for the markets, labour and natural resources of the ex-degenerated workers? states.

The guarantor of globalisation: US imperialism

The key factor in explaining the pattern of development after the Second World War, and the role of finance capital within it, is the expansion and maturation of the US economy. At the beginning of the period, the US was already hegemonic over the other imperialist powers, both the victorious and the defeated. This hegemony stemmed from the fact that the United States monopolised the world?s capital, its gold supplies and key sectors of industrial output in 1945.

At the end of the war, Washington made a political decision to regenerate the other imperialist powers, Allied and Axis alike, through credit and aid. The objectives were the creation of economic stability in those countries, avoidance of any repeat of the revolutionary upheavals of the 1918-21 period and provision of markets for US goods and capital. At the time, these were best met by stimulating trade by dismantling tariff barriers and regulating exchange rates.

Unsurprisingly, the US got its way in the debates about the scale and function of the IMF, World Bank, GATT, NATO and the United Nations in 1944-48. It also promoted the formation of the EEC in 1950s and, until 1971, sustained the international financial architecture and, through it, the expansion of international trade.

In subsequent decades, the US installed a series of military bases around the world to defend its own interests, protect dictatorial semi-colonial capitalist regimes and combat Stalinist-led national liberation movements in Asia and Africa. Alongside this, it implicitly backed the process of decolonisation in Africa and Asia against old European imperial powers in order to open these continents more fully to US corporate and diplomatic influence.

In short, it overcame the disjuncture between political, economic and military power that lay behind the lack of imperialist leadership in the two decades before 1940. This allowed the US to achieve what we can now say is a prerequisite for capitalist globalisation: that one major power, acting in its own particular interest, actually promotes the general interest of the global capitalist system and guarantees the conditions necessary for its reproduction.

Of course, for two or more decades after 1945 it did this in conditions of rising profits, productivity and output for all imperialist powers, a period of shallow business cycles and expanding trade during which inter-imperialist contradictions were sublated even if conflicts over decolonisation flared up occasionally.

Ultimately, what this proves is that during the inter war years, and the war itself, the US had undergone an internal development that obliged it to abandon Isolationism and take up its new global role. Nor was that internal development already finished by the end of the war. On the contrary, several decades of continued domestic expansion and further maturation lay ahead of the new imperialist hegemon before it would begin to face its own nemesis.

From the 1960s, this absolute hegemony came under challenge from various directions. It had failed to fill the breach left by retreating French imperialism in South-East Asia and suffered a massive military defeat there in 1973. This also meant political defeat at home under the impact of a mass anti-war movement. On the back of this, the USA suffered a string of reverses for the rest of the decade from Iran to Central America. It was forced by its weakness into détente with China.

In the 1960s and 1970s, the USA began to lose its competitive advantage in a number of markets to the EU and Japan. The productivity and innovation gap narrowed, market share was taken away from the US MNCs. Europe improved its GDP per capita from 54 per cent of the US figure in 1954 to 75 per cent by the 1980s.

The crisis of the first half of the 1970s was the inevitable result of these factors and the USA ended the 1970s as only the first among equals, rather than their overlord. In these circumstances, and given two serious international recessions between 1970 and 1979, inter-imperialist tension and rivalries emerged, especially with Europe, over trade and foreign policy.

In the early 1980s, while the US struggled to regain lost ground, Japan emerged as the dynamic economic superpower and the US entered into trade conflict with, and financial dependence on, Japanese imperialism for the first time since 1945.

Despite this economic stalling and the military reverses at the hands of national liberation movements, the United States never lost its relative economic lead, its reactionary grip on South American regimes, or its overwhelming military superiority within Nato.

The US capitalist class has spent the last twenty years winning back the ground it lost. It sponsored successful covert and overt reactionary wars in Central America. Through rearmament, it broke the back of the USSR by 1989. This, in turn, broke the back of lingering resistance to the US-sponsored neo-liberal economic agenda: the end of capital controls and trade barriers, privatisation of state assets, deregulation of both labour and environmental protection. As a result, it was the Nineties which saw the most dramatic changes in virtually all aspects of the US economy and its international role.

Nonetheless, many of the foundations for that change were laid in the 1980s. At home, the Reagan administration launched a successful offensive on the labour movement in 1981, resulting in a historic weakening which paved the way for two decades of falling labour costs, greater labour flexibility and longer hours. In turn, this gave the US MNCs a platform from which to restore profits, investment and, eventually, a major improvement in domestic productivity and product innovation in the 1990s.

This set the scene for a massive expansion of investment, profits and market share in the 1990s. The MNCs from the United States have raised their share of the overall total of foreign assets held by the world?s 100 largest MNCs by about 6 per cent since 1990. In comparison, the share of EU MNCs has remained fairly stable.20

The number of US MNC affiliates tended to stagnate in the 1980s21 in conditions of debt crisis in Latin America and the slow dismantling of capital controls in much of the non-OECD world. Their numbers grew by just 6 per cent. However, in the 1990s, they mushroomed as capital controls fell away, Russia, China and Eastern Europe opened up and Latin America revived. Between 1989 and 1998, the number of US MNC affiliates expanded by 38 per cent.

The period 1989-97 saw the annual rate of growth of output by majority-owned foreign affiliates of US MNCs rise at an average 7.2 per cent. This far outstripped the rate of increase of the US domestic economy and of the output of US-based plants of the parent US MNCs.22 By the end of 2000, the total stock of US owned assets abroad stood at $7.2 trillion.

At the same time, US MNCs spread beyond the OECD. In 1989, OECD countries had hosted 71 per cent of all US MNC affiliates; they accounted for 83 per cent of all sales of US MNC?s, for 80 per cent of their capital stock and 70 per cent of their employment.
By 1998, while OECD countries were still host to 67 per cent of all affiliates, there had been a doubling of affiliates in non-OECD Asia. The share of OECD in capital stock of US MNCs declined from 80 per cent in 1989 to 68 per cent by 1998. A considerable growth in US investment in South-East Asia and China and a small but significant presence in Eastern Europe were the key features of the decade.23

Despite this broadening of US MNC presence abroad, it is necessary to recognise that, in 2000, the bulk of US capital stock and annual FDI still found its way to Europe (55 per cent).24 Hence, a distinction needs to be made between the decisive weight of US investment lying within the Triad countries and the rapid spread of investment around the world, adding to US imperialism?s global geo-political interests.

During the 1990s, the profile of the US MNC?s also changed markedly. In 1982, US oil companies accounted for 11 per cent of all MNC affiliates, 36 per cent of sales and 43 per cent of capital stock. In 1998, the comparable figures were 6, 11 and 25 per cent respectively. The decade also saw a greater diversification to other industrial sectors and, although it started from a low base, the most dynamic sector was finance and insurance which witnessed a 350 per cent increase in its capital stock and a doubling of sales.25 US financial multinationals? investments grew at 13 per cent a year from 1982-98 on a world scale, three times the rate of manufacturing.

During the course of this resurgence, US MNCs also pulled away from their European and Japanese rivals. Productivity in the US economy in the 1990s improved at an annual average of 2 per cent. Although well below the 1957-73 period, this was a substantial improvement upon the 1970s (1.3 per cent) and 1980s (1.5 per cent). Moreover, unlike the EU?s increases in the first half of the 1990s, which were, to a large degree, a result of rising unemployment (1% a year decrease in hours worked), the 1990s productivity gains came in a decade which saw a 1.6 % a year jump in hours worked.

The long US upturn of 1991-2000 contrasted with the stagnation endured by Japanese capitalism and the more muted growth of the EU in the same period. GDP per head in the US between 1995-2001 grew at 2.3 per cent a year compared to the EU?s 1.4 per cent. By 2001, real GDP per head in the EU was only 67 per cent of US levels as a result of greater productivity, longer hours and more of the US population being in work.

Nowhere has US supremacy been as evident since the end of the Cold War as in the military sphere. It has the money, personnel and hardware to take on the rest of the world. It now also has the political conviction that the state sovereignty of other nations is dispensable and presents no obstacle to the pursuit of its own national imperialist interests. It is not committed to securing the agreement of its main allies (still less agencies like the UN) before launching attacks on those deemed an enemy of the USA.

The Financial Times said in February 2002:

?In military terms, there is no serious rival to prevent the US from pursuing its national interests. Even before President Bush came to office, the US outspent its closest allies inside Nato substantially. With more than 118,000 military personnel in Europe, around 92,000 in East Asia and the Pacific, the US has an unrivalled global reach ? in addition to 1.13m active duty personnel on its own territory. The gap with the rest of the world will only widen in cash terms, as the Bush administration plans for the biggest rise in military spending since the Reagan era. Under its budget proposals, the administration intends to boost the Pentagon?s annual spending by $120bn over the next five years, including $48bn next year to $379bn. That, according to figures from the Stockholm International Peace Research Institute, exceeds the total combined military budgets of the next 14 biggest spenders ? including Japan, Western Europe, Russia and China.?26

Since September 11th, the US has accelerated and consolidated its military grip on the world. Today, it has a military presence in 100 of the 180 countries in the world, ranging from a few dozen ?advisors? to functioning bases. It has established bases in key states in the ex-USSR such as Uzbekistan and Kyrgyzstan. It has deployed marines in Georgia to fight Chechens and special forces in the Philippines to hunt down Muslim guerrillas. The numbers of ?advisors? and their role in anti-FARC operations inside Colombia have been stepped up since September 11th.

In retrospect then, it is possible to see that the obituaries that were written for US imperialism in the 1970s and 1980s were premature. US imperialism was not ?rotten ripe? as several imperial powers had been on the eve of the First or Second World Wars. Yet, the law of uneven and combined development applies with equal force to the United States. US hegemony within the imperialist camp was never greater than immediately after the Second World War, when its allies and rivals alike were prostrate. However, a sixth of the globe was sealed off from its reach, having overthrown capitalism and disengaged from the world market. Also, paradoxically, as a capitalist power, the US was, in certain respects, still relatively undeveloped. It was still highly dependent on its domestic market for accumulation, profits and final demand.

Today, that picture has changed. Forced by the breakdown of the post-war financial architecture, the competitive challenge of European and Japanese imperialisms and the end of the post-war boom (that allowed profits and wages to rise in tandem), the United States was forced to go global like never before ? economically, diplomatically and militarily. That is why, today, its MNCs are more diversified, larger, more numerous, have a greater weight compared to their rivals and are backed by a larger and more technologically superior armed power than ever before. The US has been involved since the end of the Cold War in a pre-emptive strike against its imperialist rivals, and those like China and Russia who have pretensions to enter this club.

Since September 11th, US imperialism has deepened, broadened and accelerated its reactionary attempt to crush all resistance to the rule of its corporations and its foreign policy objectives. It has waged war in Afghanistan, and more significantly Iraq, emboldened Israel to crush the Palestinian intifada, stepped up its military support for Colombia?s war against the FARC, and colluded in an attempted overthrow Chavez in Venezuela.

The Bush administration has manoeuvred and bullied to remove the heads of the Organisation for the Prohibition of Chemical Weapons and the International Commission on Climate Change. The former since Jose Bustani demanded that the OPCW be allowed to inspect US facilities with the same freedom that the US demands must apply to Iraq and the rest of the world; the latter, because the US oil companies demanded the removal of this critical voice.

In Joseph Conrad?s 1904 novel, Nostromo, US businessmen Holroyd says of a young American imperialism surveying the planet: ?Of course some day we will step in. We are bound to. We shall run the world?s business whether the world likes it or not.? One hundred years later, whether the rest of the world likes it or not, the Bush administration is working all out to realise Holroyd?s dream.

The threats to another American century

For the Bush administration, the only threat to globalisation comes from those forces who oppose further liberalisation of trade and investment. Among these can be counted anti-capitalist activists, critical NGOs and Third World governments who remain suspicious of further opening up their countries? markets to Triad multinationals.

Since Seattle, in 1999, the semi-colonial rulers have been under enormous pressure to reverse the concessions they made to the MNC?s in the 1990s which resulted in the privatisation of their industrial and banking assets and a deterioration in labour conditions. At Dohar, in November, 2001, a huge counter-offensive was launched by the WTO and its key backers in an attempt to launch a new international trade round.

In formal terms, they succeeded, although the key victory for the WTO in Dohar was that the ministerial meeting itself did not end in total collapse. As the Financial Times put it, ?Agreement was reached by dint of vague drafting compromises that often merely papered over divergent national interests. The consequence is a negotiating agenda riddled with ambiguities.?27

The prospects for a new international trade round that will massively accelerate the rate of growth of international trade and investment again are highly doubtful.28 Countries from the South have given only conditional support for new trade liberalisation; they insist on access to protected Triad countries? markets for their farm goods and an end to the farm subsidies for the rich agribusiness of the North which run at $1 bn a day.29

Oxfam estimates that both the EU and the USA ?are exporting at prices more than one-third lower than the costs of production. These subsidised exports from rich countries are driving down prices for exports from the developing countries.? 30

Since 70 per cent of semi-colonial exports are farm products and textiles, this access is critical to their development within the accepted neo-liberal model. Even past agreements are not being adhered to by the EU and USA. They both pledged to phase out the Multi-Fibre Agreement, which restricts imports of textiles and garments from the Third World. Yet they have opened their markets to fewer than one-quarter of the products to which they had agreed.31 In general, goods from countries of the South face OECD tariffs four times higher on average than goods traded within the OECD.

It is clear that neither the EU nor US governments are likely to accede to these demands because of the powerful corporate lobbies in their own countries. Even Pakistan has received no increased access for its textiles despite falling over itself to help Washington in the war against Afghanistan.

In addition, trade conflict between the EU and the USA has not been as high as it is now for a long time. As a harbinger of the present conflict, the USA refused to back down in the face of a WTO ruling that the government had been unlawfully subsidising US MNC exports through tax concessions. Then, in March 2002, the Bush administration imposed tariffs of around 30 per cent against steel imports. This was an economically significant blow for a number of Third World countries and, indirectly, the European Union which faces a redirection of the cheap imports excluded from the USA.

The EU has retaliated by tabling about $400 mn worth of duties on US exports to the EU. Both sides insist that WTO rules are on their side; in fact the most serious inter-imperialist trade spat since the founding of the WTO in 1995 threatens to escape the control of the WTO and lead to escalating protectionism.

Politically, the US decision is an even bigger blow to liberal models of globalisation. It has exposed the hollow rhetoric of the USA?s commitment to ?free trade?, which is in fact conditional on its MNCs being best placed to profit from such openness. When they are not ? as is clearly the case for the USA?s globally uncompetitive steel industry ? it reverts to protectionism.

This has been condemned openly by Bush?s biggest allies abroad and considerably weakens the leverage of the US and other ?free traders? to force more trade and investment liberalisation concessions from the South. Bush has already weakened multilateral agencies such as the WTO whose rulings he has ignored.

If the WTO ceases to be a forum for reconciliation of inter-imperialist trade disputes and becomes merely a stage for advertising these differences prior to unilateral actions, then the prospects for globalisation are dim indeed.

The present steel trade war is a function of massive global overcapacity (in the region of 100mn tonnes a year according to the OECD) in the industry and the subsequent intensified struggle for profitability in the midst of a recession. Protracted stagnation, very low growth or renewed recession in the next years, will expose more sectors in the same way and lead to the same result. In addition, if Bush fails to get Congressional approval this year for ?fast track? trade negotiations, then the protectionist lobby in Washington will be able to forestall and unpick each and every bi-lateral and multi-lateral trade agreement struck by the administration.

Since the 1997 Asian meltdown and the 1999 Seattle debacle, globalisation of trade has steadily given way to its further regionalisation. In particular, bi-lateral trade pacts between countries in effect discriminate against others and thus are not building blocs for globalisation but impediments to it.

Regional trade arrangements (RTAs) are also proliferating. Two hundred are now in force and they spread fast in the late 1990s: ?The EU and, more recently, Latin American countries, have been active exponents of RTAs and the fashion has now caught on in Asia. It has been led by Japan and Singapore, once staunch defenders of multi-lateralism.?32

Even the Free Trade Area of the Americas, itself a regional trade pact, has been knocked off course by the Argentina crisis and the Bush administration has effectively ditched it in favour of a narrower free trade area with Central America.33

Neither is it just global trade flows that are under attack. After the Asian crisis, foreign investment flows declined in that region and then, in 2001, in the world as a whole. Several important semi-colonial countries, such as India and China, while opening up to trade, have put the brakes on the process of opening up their capital markets to foreign MNCs.

Even many western economists found it hard to criticise the Malaysian government?s imposition of capital controls in response to the Asian crisis in 1997. They recognised that this saved the country from the worst effects of capital flight, something that plunged the more open economies of Indonesia and South Korea into an orgy of closures and mass unemployment. Many banks and potential bond holders are also now risk averse and new international lending has dried up to much of the South.34

It is not just the further growth in international trade and investment that is under threat. A growing chorus of opinion can also be heard which argues that, unless major liberalisation in the movement of labour is undertaken during the current decade, growth will be badly hit. Between 1871 and 1915 more than 36 million people left Europe, the majority for the New World. 35Today, restrictions on international migration are draconian and tightening at a time when major shortages in the stagnant labour markets of the North are appearing.

Apart from highlighting the sheer hypocrisy of encouraging free movement of capital while restricting the free movement of labour in search of better wages and more secure employment conditions in the North, such controls reveal a real contradiction for imperialist capital. On the one hand, they lead to skills shortages in the North but, on the other, they are necessary to maintain the superabundance of cheap labour which is essential for profitable investment in the Third World.36

The triumph of finance capital

The course of economic development over the last two decades or so has hugely increased the weight of financial capital in the life of capitalism as a whole. As we have already seen, by the end of the 19th century, a distinctive ?finance capital? had emerged as a result of a growing fusion between what had been the relatively distinct forms of industrial and banking capital.

During the last 100 years, the weight of this finance capital has increased immensely ? although not necessarily in the same institutional form in which it existed 100 years ago (most of all in Germany) ? but in the sense that financial operations now predominate over other business operations such as manufacturing.

In short, the particular line of business becomes more and more secondary to the process of making money. Put another way: as capitalism matures, exchange-value (money seeking to make itself bigger) tries increasingly to liberate itself from the restrictions of being trapped in any one concrete form of capital (use-value) for any length of time. For proof, one need look no further than the increased role of the chief financial director within any modern multinational over the last thirty years.

During the early decades after the Second World War, this pre-eminence of finance capital was subordinated for political reasons. The post-war expansion was based on new investments and expansion of merchandise trade within the Triad. But, in the last thirty years, capitalism has progressively set aside these limits and, in effect, the reality of capital has become closer and closer to its concept.

As we have seen, in the early 1970s, capital was ?liberated? from its role of merely servicing a controlled expansion of trade and new fixed investment, mainly in Europe and Japan. The end of the post-war boom exposed the fact that major sectors of multinational capital were facing real problems in maintaining profitable accumulation within existing geographical and sectoral boundaries.

Capital does not just rebel against national limits but also against being restricted to just one or two forms (e.g. ?industrial?, ?commercial?) which themselves carry strict lines of demarcation over their function.37

In the 1970s and 1980s, all the geographical limits to capital started to fall and, at the same time, the distinct forms in which capital could exist began to blur. In some cases, the functions normally associated with one form of capital (e.g. banking) began to be taken up by other forms (e.g. industrial) in others an existing form of capital (e.g. credit) started to multiply into a myriad of new forms (e.g. derivatives, junk bonds).

This bonfire of controls and restrictions on the development of new forms of capital was fuelled in part by the need for MNCs to find new fields of profitable exploitation. A further factor was the need to diversify investments as an insurance against the very changed business climate of the 1970s onwards. Rates of return were low in traditional industrial investments (and subject to the return of sharp swings in the business cycle) and, moreover, they were often locked up in that form for decades while the investments matured. It made sense for big corporations to look for forms of investment that could give bigger returns and mature more quickly.

In addition, the end of exchange and capital controls may have provided new opportunities but they also brought new risks; what if unexpected movements in exchange rates suddenly wiped out the value of an investment? Hence, new forms of capital and investments emerged ? such as hedge funds ? whose function was to spread and, thereby, minimise, risk.

The other major financial development of the post-Bretton Woods era was the explosion in debt and subsequent trading in debt (?securitisation?). Freed from restrictions, banks were able to lend widely to sovereign governments as well as to companies and consumers. Banks often forced loans on reluctant borrowers as a result of political pressure from the World Bank, which tied ?development finance? to these loans.

World private (household and corporate) debt, in 1995, was $31 trillion and growing at 9 per cent a year. Increasingly, the profits of finance capital are based on fictitious capital formation (i.e. debt and debt creation) an expected cash flow in the future is converted into spending power now.

All in all, the ?financial revolution? after the 1970s qualitatively shifted the balance between FDI and trade, on the one hand, and financial instruments, on the other, in favour of the latter. Between 1980-90, cross border transactions in equities increased by 28 per cent a year; between 1993-2000, they increased at more than 40 per cent a year. International bank lending went from $324 bn in 1980 to $7.5 trillion ten years later. The international bond market experienced a 537 per cent increase in business in the same decade.

These rates of increase far outstripped the rate of increase in international merchandise trade or FDI after 1980.38 Between 1982-88 the annual increase in global stock of financial assets was $3.8 trillion compared to fixed capital formation of $2.3 trillion a year.39

In 1971, in the era of stable exchange rates, ?over 90 per cent of exchange transactions in the world bore some relation to financing trade or future investment, while less than 10 per cent was speculative. Today, these figures are reversed: over 90 per cent of all transactions are speculative?.40

The hegemony of finance means that profits are not generally reinvested in new plant and equipment. Instead, they go either into short-term financial instruments ? which are little more than bets on future cash flows ? or into mergers and acquisitions. Although these are, basically, only a change in ownership of capital, they promise instant rewards in the form of increased stock market valuations and shareholder dividends, not to mention the benefits to directors who hold ?stock options?. The diversification of financial capital ? to compensate for lower rates of profit and the uncertainty of the business cycle ? was a major new qualitative development in the imperialist epoch.

At the apex of the pyramid of speculation stand derivatives, such as ?futures?, which are agreements to purchase other financial instruments (say bonds or shares) at some point in the future at an agreed price. Enron, the largest company ever to go bust in the USA ? and notionally its seventh largest firm ? was essentially a firm that traded in derivatives based on movement of energy prices. In 2001, it was estimated that the total value of derivatives traded in regulated exchanges was about $20 trillion; but the unregulated, ?over the counter? market (OTCs) was estimated to be in the order of $100 trillion and this market did not exist 20 years ago at all!

The implications for the economy can be seen from the fact that, when these deals are made, only about 5 per cent of the purchase price is paid up front by the purchaser and the rest is borrowed from the banks. The impact of a string of defaults and collapses on the real economy is easy to imagine.

Nothing like this was seen in the decades before the First World War.41 The result has been the consolidation of the rule of finance capital. But, whereas in Lenin?s day it was banks that dominated the scene, today, it is the financial conglomerates. This is not just a rebranding of old banks but a real change in the structure of finance capital over the last 10 to 20 years.

All the established boundaries within the banking and insurance sectors have disappeared and, once again, this process has benefited the United States most. In 1992, European banks undertook a broader range of activities than their US counterparts which were constrained by the Glass-Steagall Act to choose between investment banking, commercial banking or insurance. Clinton scrapped that legislation.

The result, during the 1990s, was to transform the face of finance capital. In 1990, the world?s top eight financial firms were Japanese banks, headed by the Industrial Bank of Japan with assets of $57bn.42 In 2001, seven of the top eight were based in the USA, headed by Citigroup with assets of ?260bn. The wave of mergers and acquisitions in the 1990s helped bring this about and established the leading firms as truly world players for the first time. Until the 1980s, US firms especially were prevented from expanding their operations abroad through takeovers.

Naturally, this concentration of huge assets, combined with sectoral diversification and geographical spread, gives the major finance capitalist firms considerable reserves with which to withstand blows like the collapse of Enron ? which did not break the back of J.P. Morgan Chase despite the size of the losses involved. Nevertheless, given the relentless increase in Enron-type derivatives ? into the hundreds of trillions of dollars in the next decades ? the real possibility exists that this chain of debt could strangle even the biggest financial conglomerates.

New model of accumulation?

The combined result of unleashing finance from its moorings in production, the neo-liberal bonfire of controls on capital and trade and the attack on wages and social benefits has been to create a new model of capital accumulation. It is characterised, on the one side, by increased exploitation and capital overaccumulation and, on the other, by debt, deflation, parasitism and growing instability.

In 1965, at the height of the post-war boom, the rate of profit for non-financial corporations in the G7 nations stood at 22.5 per cent. It declined steadily thereafter with a major tailspin in the 1970s global recessions; it bottomed out at 14.3 per cent in 1982, in the trough of an international recession.43

The first co-ordinated international reaction to the 1973-75 recession was to boost final demand with an injection of spending and more government borrowing. This was the accepted Keynesian remedy to recession. This outlook was confirmed at a G7 summit in Bonn in 1978, which agreed to shift the onus for sustained recovery from the recession onto Germany. At the time, neo-liberal factions lobbied for an alternative macro-economic response but trade unions were strong and impeded most major attempts to speed-up labour, cut wages or slash social spending in the face of the succession of economic crises after 1973.

Again, it was the USA that led the way to a shift in imperialist policy when it unilaterally broke the established consensus. The impulse was the acceleration of inflation in the second half of the 1970s, a result of declining productivity in conditions where workers successfully defended their real wages and employers passed rising costs onto the price of their intermediate goods and consumer products.

Given the rising hegemony of the ?financial oligarchy?, inflation was seen as enemy number one. Rising inflation eroded the value of debts held by the banks (and sovereign lenders to the Third World). The IMF and World Bank?s policies were shifted to accommodate this stance and they put the preservation of the value of loan capital above the preservation of industrial capital (factories, jobs etc).

On 6 October, 1979, the chairman of the US Federal Reserve, Paul Volcker, cut the money supply and then raised interest rates to nearly 20 per cent. Other G7 central banks followed suit. The immediate effect for industrial capitalists was a huge increase in the cost of servicing debts ? already difficult given declining profits. A massive slump occurred in the years 1980-82 and a major wave of bankruptcies. The Third World debt crisis also erupted, Mexico leading the pack into default.

In most countries, mass unemployment resulted, providing a platform for a frontal attack on union organisation across the industrialised world. A decade long process of restructuring of production ensued that led to flexibilisation, de-unionisation, and the lowering of wages. Alongside this, there was an assault on social welfare to allow for huge cuts in taxes on profits.44 This restructuring took place against a background of a developing new international division of labour as MNCs began to relocate all or part of their production to the Third World to take advantage of lower wages.

Increasing globalisation also brought more competition into semi-colonial markets which, over time, had the effect of lowering the price of raw materials and energy supplies, thus lowering the costs of production for MNCs and increasing the profit margins of huge multi-national wholesalers and retailers in the OECD.45

China is at the centre of this process of deflation. Massive capital inflows by the major MNCs have combined with the world?s cheapest labour to spur huge competition, generalised oversupply and falling prices. It exports this deflation to the rest of the world as its cheaper and cheaper exports flood the world.46

A general, decades long, downward spiral of prices (deflation) has resulted from increased competition, a partial revival in productivity, a collapse of commodity prices and holding wage rises at, or below, inflation.47 Taken together, these developments signalled an end to the ?Fordist? regime of post-war accumulation which was based in the G7 on the ?parallel growth of production, productivity of labour and working class consumption?.48

None of this was pushed through without massive class battles but, in general, the results were the same everywhere due to the reformist leadership of the labour movement: big defeats for the working class.

The attack on wages to raise exploitation restored profit rates. From the nadir of 1982, the rate of profit recovered. By the end of the recovery cycle in 1989, it stood at 18.1 per cent, slightly below where it was on the eve of the first international recession of 1973.49 During the long economic recovery cycle of the 1990s, the rate of profit recovered further, especially in the USA. There, the mass of profits jumped 82 per cent between 1989-97 and the rate of profit grew by 28 per cent in the same years, back to the level of the late 1960s and within 15 per cent of post-war highs.50

However, this success was extremely one-sided in that the improvements in the rate of exploitation were mirrored by a problem in the realisation of these profits. Working class real wages had stagnated in many OECD countries, or even fallen, especially in the USA. Savings as a proportion of GDP had, not unnaturally, also fallen, because of the need to preserve current consumption while real wages stagnated.

The realisation problem for capitalism had a ready-made ?solution? at hand, however, in the form of a major expansion in debt. The supply of available credit has been rising inexorably since the 1970s deregulation of the financial markets. The rise in demand has come as a c

Between 1945 and 1980, outstanding debt in the USA as a proportion of GDP remained flat. After 1980, the rise in private sector debt rose much faster. ?By 2000, outstanding private debt is two and one quarter times GDP.?51 And the financial sector is responsible for an increasing share of this debt; its debts equal 90 per cent of GDP and 35 per cent of total non-government debt.

In the 1990s, in the USA, total private debt rose at 6 per cent a year to reach record levels by 2001. In the UK, household debts rose to a record 118 per cent of personal disposable income in the same year.52 The same is true for companies in Europe and the USA; their debts as a proportion of their profits or GDP reached record levels in the 1990s boom.

The accumulation process especially after 1980, became addicted to debt and is dependent on it.53 Debt, however, undermines accumulation. Debts at these levels cannot be sustained indefinitely. The debt service burden of American households, in 2002, was 14 per cent of their income ? a figure higher than on the eve of the 1990-91 recession. As for companies, The Economist confirmed that ?Companies? interest payments are absorbing a record share of their profits, yet they continued to borrow more throughout last year.?54

The ability to sustain accumulation under the burden of these debts depends on expected and actual profits in the next years. The big increase in debts in the 1990s was mainly undertaken by households and companies in the belief that the big profit and stock market rises of the second half of the decade (in excess of 10 per cent a year) would continue indefinitely. This is extremely unlikely, as is a substantial increase in wages and other forms of household income.

It is not necessary to imagine what happens when the world economy is pinned to the floor by an accumulation of debt. Japanese capitalism is already living the nightmare and is stuck in its fourth recession in nine years. Japan?s banks lent masses of money to companies and households in the 1980s as a result of the liberalisation of finance.

This spawned a huge speculative investment programme. Property and land prices soared, as did stock market valuations. When the 1989 recession broke, asset prices collapsed, as did the stock market.55 A mountain of debt was exposed, largely unpayable. Banks were heavily exposed and much of their loan portfolios proved to be bad and unrecoverable. Estimates of the scale of unrecoverable loans to failing or failed firms ran from 37-170 trillion yen in 2000. The banks, however, were unwilling to write-off their ?assets? and push bankrupt firms into liquidation.

Successive governments in turn have shored up the banks with public money and, in the absence of an investment led economic recovery, sought to sustain growth through tax and interest rate cuts and public works programmes. All that this has done is to inject temporary growth while pushing government debt into the stratosphere (130 per cent of GDP) and creating a deflationary spiral as low inflation eventually turned into falling prices during the last three years.

In turn, deflation makes consumers postpone spending in the hope of further price falls and makes the debt/GDP ratio higher as nominal GDP falls in line with prices. Deflation also makes the debt burden more costly to service and so companies shun using profits for investment in favour of ?repairing their balance sheets?, that is, clearing some of their debts.

Accumulation cannot be rekindled in Japan without a major restructuring of capital, which would close thousands more businesses ? including big ones ? by making banks foreclose on defunct enterprises. It would also result in a massive increase in unemployment, already at a post-war high of 5.6 per cent. This might then restore profit rates, which have collapsed, and stimulate investment. But, so long as the LDP ruling party and state bureaucracy insists on further rounds of public spending and debt in order to ?serve? their political supporters in various industries, this course of action looks unlikely.56

If and when a crisis erupts and a major collapse of firms and output happens, it cannot fail to impact on international trade and investment patterns. Japan?s trade surplus with the rest of the world shrunk by 40 per cent in 2001, mainly due to the US recession. Nonetheless, Japan remains the world?s second largest economy and a huge investor and trade partner, especially in Asia. A collapse would trigger a tidal wave of recession elsewhere in the region and a contraction of international trade and investment.57

Ever since 1982, the major economic crises of capitalism have been triggered by an accumulation of debt. In Mexico, that year, the government defaulted on its foreign debt when interest rates were jacked up sky-high. In 1989, Japan?s recession began when a rise in interest rates made company debts unserviceable. In the 1990s, we have seen Mexico (1994), South-East Asia, (1997) and Argentina (2001) all collapse as debt levels were exposed as unsustainable by recession or an overvalued currency.

Debt is the sword of Damocles hanging over globalisation. If it falls it could sever the sinews of international trade and investment for a long time.

The undermining of US supremacy

The United States is a political and military colossus bestriding the world. Economically, it both underpins, and is the chief beneficiary of, the process of globalisation. As a result, it is also vulnerable to its contradictions.

US accumulation in the 1990s depended centrally on an expansion of debt and stock market returns so that consumers could continue to buy even though wages were stagnant. Much of the money that fueled that stock market boom came from abroad, increasingly so after 1997 as foreign investors sought a safe haven from the fall-out of the Asian crash.

As the world?s only superpower, its currency?s strength, even after the 2000 stock market crash, reflected the confidence that world investors had in its resilience. But the economic structure of US capitalism does not warrant such blind faith. Company profits fell to 1930s levels in 2001 and industrial overcapacity, while reduced, is still at 75 per cent, testimony to the massive overaccumulation of capital of late imperialism.

Despite an unprecedented post-war three straight years of decline (2000-2003) stock markets in the USA are still overvalued, considering future profit projections; after one year of mild recession (2001), debt levels were still rising. The trade deficit is huge (5% of GDP) growing fast and unsustainable. Now, foreign-owned assets in the USA outweigh US-owned assets abroad.

All this puts a heavy strain on the dollar. Its value against the Euro fell 20 per cent in the year up to February 2003. Yet, US capitalism depends critically on the continued supply of foreign funds for its continued prosperity. Just as the 14 per cent of the world?s population that lives in the USA devours 40 per cent of the world?s energy resources, so its businesses suck in the world?s capital to sustain its growth and the living standards of its middle class and better-off workers.

However, as soon as global pension funds holders and asset holders anticipate a sustained fall in the dollar, the inflow of funds will dry up. At that point, stock market valuations would fall further, credit lines would be cut, debt would become harder to service and a further retrenchment in the ?real? economy inevitable. The engine of the world economy would stall, or worse, and the US would cease to be the ?market of last resort? for many other countries. A protracted recession or stagnation in the USA would also make the US model of capitalism, namely; liberalisation, flexibility and low wage job creation, much less attractive to the EU and Japan.

Ongoing economic difficulties would place a great strain on federal budgets, including the ability to sustain an ever expanding commitment to rearmament, deployment of troops and expansion of military bases. Some estimates for the costs of waging war on Iraq are put at $1.9 trillion. Borrowing abroad to sustain this would test the willingness of financial markets to hold ever more US debt. It would in any case increase the leverage of creditor countries on the USA. Sustaining imperial military expansion would at least demand a return to higher interest rates to attract demand for US bonds, which could only worsen the plight of debt-laden firms and households. In this scenario, imperial ambition and domestic pressures would work against each other.

Politically, the overbearing nature of US dominance, its hypocritical rhetoric, its bullying and biased diplomacy, its unilateral, repressive action provoke opposition from all quarters ? including other imperialist powers whose own regional interests are threatened by US actions.

But the main opposition comes from the millions of poor and exploited who suffer at the hands of US-led corporate globalisation and the hundreds of thousands in the anti-capitalist movement in North America and Europe who have rejected the Washington Consensus and are fighting to end the rule of the MNCs over their lives and over those living in the South.

In the short term, the first casualties of this resistance are likely to be the agents of US imperialism in Latin America, the Middle East and Asia ? the hated rulers of the Gulf monarchies, those in Argentina who are trying to restore the rule of the IMF in a wrecked country, governments in ex-USSR states, Indonesia or the Philippines who welcome in US troops and bases.

If these regional and local clients of US imperialism were overthrown or fatally weakened, the Bush administration?s attempt to sustain its hegemony through them would be set back, as it was from 1973-1979 in South-East Asia, Central America, the Caribbean and Iran.

Then, the ability of the USA to underwrite the latest phase of imperialist expansion would end. With the USA locked out of key regions and capital flows severely disrupted, protective autarky and regional alliances that by-passed the WTO and IMF would be the norm. Imperialism would enter its death agony.

Footnotes

1 These 63,000 MNCs have 800,000 foreign affiliates
2 World Investment Report 2001, UNCTAD page 95
3 This is the tendency in the work of James Petras and Henry Veltmeyer for example, see Globalization Unmasked: Imperialism in the 21st Century, Zed Books, 2001
4 ibid p1
5 Robert Went, Globalization,: new-liberalism, and new radicalism, London, 2000 Ch 2 which provides a good critique of technological determinism. He charts the collapse of the Bretton Woods system of financial regulation in the early 1970s as the root cause of the abolition of capital controls from 1974 onwards which allowed for deregulation and liberalisation in capital flows. Technological innovation followed to take advantage of these new possibilities.
6 R Hilferding, Finance Capital, (1910), Bukharin Imperialism (1915) and Lenin, Imperialism, the highest stage of capitalism, (1916)
7 V I Lenin, Introduction to Bukharin?s Imperialism, London, 1972 p11
8 Horst Köhler, Speech to conference on Humanizing the Global Economy, Washington, DC, January 28, 2002 www.imf,org [1] How this can be sustained when large parts of the world were not ?integrated? into capitalism at all is hard to grasp.
9 Globalization, growth and poverty, op cit, p3. This characterisation conveniently straddles the transition from ?free market? capitalism to imperialism, thereby minimising the significance of the very changed character of capitalism both within the major capitalist powers and in their relations with the rest of the world.
10 ibid
11 l Trotsky, War and the International, London 1972, p15

12 R Went op cit, p12
13 World Bank, op cit, p30
14 Uneven development in the Third World:
Intensive capital development has led to greater inequality between semi-colonies and within them. Countries that strongly increased their participation in global trade and investment include Brazil, China, Hungary, India, and Mexico. Some 24 developing countries-with 3 billion people-have doubled their ratio of trade to income over the past two decades. The rest of the developing world actually trades less today than it did 20 years ago.
Third wave of globalisation?
The World Bank insists that the post-1980s onwards represents the ?third wave? of globalisation which it says is distinct from the second because the Third World (or at least two-thirds of it) is brought into the embrace of globalisation and its population reaps benefits from it.
Quite apart from the fact that this latter claim can be refuted (see Is globalisation good for you? Workers Power Global, July, 2001) it is hard to see how the post-1950s period can be seen as two waves, since there is no evidence of a reflux in the trend toward greater, if uneven, integration of the world economy between the two supposed phases (as there clearly was between 1914-48). The trend line of integration according to essential measures is continuously upwards through the course of successive business cycles
15 The opening up of the territories of the ex-USSR has had relatively marginal effect on global economy to date compared to the impact of capitalist development in China since 1992.
16 Globalization, Growth and Poverty, 2002, World Bank, p42
17 In Indonesia it crashed 35 per cent in 2002 alone after heavy falls in the previous years. In South Korea, FDI fell 63 per cent in Q4 2002 alone.
18 Financial Times, 4 February 2003
19 ibid
20 The transnationality index is a UN indicator of the overseas dependency of MNCs for sales and employment. The US index has risen from 42 to 46 during the 1990s while EU has remained stable. US MNCs have 6 of top 10 and 26 of top 100. But they command 35 per cent of the combined assets of the top 100 MNCs.
21 In 1982 there were 14,475 and 15,381 in 1989. See G. Hanson, M Slaughter, Expansion Strategies of U.S. Multinational Firms, 2001, p38
22 R J Mataloni, ?U.S. Multinational companies operations in 1998?, in Survey of current business, Bureau of Economic Analysis, July 2000, p32
23 In 1989, US MNCs had less than $10 million stock of fixed investment in Eastern Europe but $7 billion by 1998. See ibid p39
24 Of this total of $76 bn the UK took the lion?s share of $29 bn or more than 20 per cent of all US FDI. Compare Latin America and Asia-Pacific which received 15 per cent of US FDI each. Figures compiled from data of Bureau of Economic Analysis at: http://www.bea.doc.gov [2]
25 Globalization, Growth and Poverty, op cit, p40
26 Richard Wolffe, Financial Times, 18 February 2002
27 Financial Times 1 February 2002
28 The World Bank insists that a ?successful ?new trade round would add $1.5 trillion to Third World GDP by 2015.
29 A sum six times higher than the total aid budgets of the North to the South
30 Oxfam, Rigged Rules and Double Standards; trade, globalisation and the fight against poverty, p11, London, 2002
31 ibid
32 FT op cit,
33 See Economist, Globalisation special report, 2 February 2002
34 Even the Economist was forced to concede: ?The confidence with which the Fund and the Bank advised or required countries to abolish capital controls now looks misplaced in many cases.? Survey of globalisation 29 September 2001, p28
35 Oxfam, op cit, p33.
36 The propagandists for globalisation?s benefits are forced to concede that the failure to internationalise labour

markets is the biggest reason that the poor do not benefit from globalisation. One estimate suggests that an increase in migration to the North from the South would boost semi-colonial countries income by $300 bn a year (through remittances) far more than the benefits of a new trade round, which itself would benefit employers and corrupt government officials in the first instance.

37 The same breaking down of distinctions can also be seen in developments within the working class. The divisions between mental and manual labour have been eroded, the boundaries between the middle strata and the working class have been blurred.

38 Ankie Hoogvelt, Globalisation and the post-colonial world, p78-79, London, 1997. The expansion of FDI is even less impressive when you recognise that increasingly after 1980 FDI was in fact mainly a change in form of ownership of existing capital (mergers and acquisitions) rather than new plant and equipment. In 1999 90 per cent of global FDI of $1.7 trilllion was just this.

39 ibid p80.

40 R Went, op cit p13. The 1990s again saw a massive acceleration in the growth of speculation. In 1990, daily turnover on international currency markets amounted to $500bn; by 1998 it was three times this figure.

41 Pre-1914 there were some national stock markets trading a relatively small number of equities and the emergence of a international (government) bond market for issuing loans to other governments.

42 The Economist, Capitalism and its troubles; a survey of international finance, 18 May 2002, p6

43 Figures taken from R Went, op cit, p86

44 ibid p95

45 Oxfam reports that between 1997 and 2002 coffee prices fell by 70 per cent, representing a loss of $8bn in foreign exchange earnings to the exporters. The winners are the MNC?s who encouraged massive oversupply. ?These MNCs ? such as Nestles ? have been able to take advantage of ruinously low producer prices to enjoy high profit margins.? Op cit p14

46 See Financial Times 5 February 2003. The article points out that the deflationary pressures are made worse by the willingness of Chinese banks to extend credit to Chinese firms to expand into already oversupplied markets, to tolerate low or non-existent profits.

47

48 ibid

49 ibid p99

50 See K Harvey, ?Markets in denial; American capitalism on the edge of a nervous breakdown?, Trotskyist International 25 January 1999, p29

51 Editors, The New Face of Capitalism: Slow Growth, Excess Capital, and a Mountain of Debt?. Monthly Review, April 2002

52 The Economist, January 26 2002, p23. Germany?s household debts rose from 85 per cent to 115 per cent of income between 1991 and 2000, a bigger increase than the USA. Japan leads the way with debts at 132 per cent of their income. Only France ?lives within its means?

53 The degree of addiction can be seen in the fact that in the present economic cycle the dependence on debt has grown during the course of the first phase of the recession after 2000.

54 The Economist, January 26, 2002 p24

55 The Nissan index lost 75 per cent of its value between 1989 and 2002

56 For an account of the major political, cultural and historical barriers to restructuring capitalism in Japan see ?What ails Japan??, Special survey, The Economist, 20 April, 2002.

57 The alternative to a major collapse is an injection of a huge dose of inflation, to stimulate demand and erode the value of debt. But the only source of such inflation is importing it by lowering the value of the yen substantially. This is fiercely resisted by the USA as it would injure US exports and trigger a trade war, with all that this implies for a retrenchment in international trade.

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[1] http://www.imf,org
[2] http://www.bea.doc.gov