FINANCE AND AMERICAN EMPIRE

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> 'Remember the song, "We Are the World"? In matters of finance and politics, if not culture, we are becoming the world and much of the world wants to become us.' (Chairman of the New York Stock Exchange Richard Grasso, 1997)[1]

Richard Grasso's exultation expressed the hubris that has attended the global ambitions of American financiers for over a century. The actual rise to world dominance of American finance was, however, far from smooth or inevitable. The goal of 'building the world's capital for all time to come' in New York, already articulated in the late 19th century, looked set to be realized by the end of World War I.[2] Yet it was only a decade later that the Wall Street crash triggered the Great Depression and the breakdown of the international financial order. And while New York took its place as the world's principal financial centre at the end of World War II, this seemed much less important when the new Bretton Woods order had supposedly marginalized finance relative to production and trade. As the story of 20th century capitalism is usually told today, only the neoliberal 'revolution' of the 1980s and 1990s finally unleashed the forces that made Wall Street the central location of the world economy. And far from this marking the end of history, the scandal that enveloped Mr. Grasso in 2003 over his $150 million salary not only epitomized the venality of New York as the capital of global finance but also appeared to many to symbolize its fragility.

From this perspective, it is perhaps not surprising that puncturing the hubris of New York's financial elite has become a favourite game of critical political economists. Playing this game may be dangerous, however, insofar as it underestimates the material significance as well as the obvious salience of global finance in the American empire. With this in mind, this essay tries

to come to a deeper understanding, first, of the actual historical process that led to the realization by the end of the 20th century of a global financial order with New York as its operational centre, and with the American imperial state as its political carapace; and, second, of the way in which finance and empire reinforce each other today.

We begin in Part I with the unique position of the American state at the time of the reconstruction of capitalism after World War II. We argue that this did not allow for the repression of finance, as many believe the Bretton Woods arrangements accomplished, but rather that the seeds planted at that time for a new liberal trading order both reflected and contributed to the influence and power of financial capital. Part II examines the two-decade long period of confusion and hesitation about whether, and if so how, the American state could manage the emerging global capitalist economy in the context of the inflationary pressures and class conflicts of the 1960s and 1970s. Part III addresses the central moment in the neoliberal reconstitution of the global capitalist order: the domestic economic discipline introduced by the US Federal Reserve under Paul Volcker (the 'Volcker shock') at the beginning of the 1980s – which built upon the privatization and internationalization of financial markets that had already occurred, and carried them further still. We show that at each of the turning points in the evolution of the international capitalist economy, the American state both registered and extended the power and depth of financial capital at home as well as abroad.

Part IV analyzes not only the crises and contradictions but also the synergies involved in the relationship between finance, production and American empire today. It makes three central points. First, the expansion of finance has not been something apart from, but rather integral to the deepening of accumulation, as seen in both the continued internationalization of production networks and – as part and parcel of this – the continuing strength of the American economy. Second, liberalized finance needs to be seen less as a new constraint on the US state and more as a developing mechanism through which the state addresses its goals – including its capacity to contain the depth, breadth and duration of the crises that are inherent in the volatility of liberalized finance. Third, it is wrong to see the financialization of the American empire as a symptom of its decline: the globalization of finance has included the *Americanization* of finance, and the deepening and extension of financial markets has become more than ever fundamental to the reproduction and universalization of American power. It is an American empire strengthened rather than weakened by its financialization that we need to confront.

I. THE POST-WAR ERA AS THE CRADLE OF GLOBAL FINANCE

Most liberal and even critical political economists have emphasized the 'embedded liberalism' of the post-war era, stressing in particular what often has been called the 'repression' of finance.[3] In turn, the growth of untrammelled global financial markets over the past quarter century has usually been seen in terms of the 'liberation' of finance from its post-war constraints. But the 1980s did not suddenly launch the liberalization and Americanization of international finance. No less a practitioner of financial capital and American power than Paul Volcker has stressed the continuity: 'I take it almost as an article of faith (a faith that in this case can be backed by facts) that the United States, as the dominant power after World War II and for decades afterwards, was the driving force toward a liberal trading order and the freedom of international investment.'[4] Concentrating on what distinguishes the two eras leads to the neglect of the processes at work that led from the first era to the second, and the extent to which neoliberalism's spread in the 1980s and 1990s depended on the structures previously established. As a recent study of international banking puts it, '[t]he Bretton Woods years should be regarded in a number of respects as the cradle of the global financial order that eventually emerged in the two final decades of the last century.'[5]

This itself cannot be properly understood except in terms of the new type of imperial order that emerged in the decades after World War II.[6] It was defined above all by the American state successfully overcoming the earlier fragmentation of capitalism into rival empires. The unique informal empire it now fashioned was characterized, above all, by the US state's economic penetration of, and close institutional linkages with, the other advanced capitalist states. This was an imperial order very different from the one that had been characterized by the ties between the imperial states and their colonies in the pre-World War I era.

In rethinking today how capitalist globalization was relaunched in the post-World War II era, the American interest in such a project seems obvious enough: the exhaustion of the old empires during the war suggested new opportunities too tempting to ignore, and the explosion of American productive capacity brought a powerful immediacy to the issue of access to – and therefore reconstruction of – Europe's markets. More generally, the thirty-year crisis of capitalism and its declining legitimacy, in face of both Soviet Communism and the strength of the left in the West European labour movements, meant that more than just post-war economic reconstruction was at stake.

But why did Europe accept the American project? After all, hadn't liberalism proven a failure? And how could Europe possibly compete with the US

economically – or, even if it accepted the need for American capital and technology for post-war reconstruction, how could it possibly pay for this? Wasn't inward, self-reliant development the only real option? Insofar as these questions have been neglected, it is in large part because of the assumption that the post-war order was in fact not, even tendentially, a liberal-capitalist one, but one that 'embedded' capitalist relations within a political and social regulatory framework designed to limit and control its logic and dynamics. In this narrative the 'repression' of finance in favour of production, and the adoption of Keynesian fiscal policies and the Bretton Woods rules and institutions for managing global adjustments, created the foundations for the establishment of distinctive national, welfare-state capitalisms, especially in Western Europe.

But the reality was very different. At the time of the entry of the US into World War II there was a broad consensus in American capitalist and state circles that a top priority for the post-war world would be the reconstruction of a global free trade system. 'We have profited by our past mistakes', Roosevelt said as early as September 1942. 'This time we shall know how to make full use of victory'. What he meant by this was that, unlike at the end of World War I, the US government would now 'conquer its allies in a more enlightened manner, by demanding economic concessions of a legal and political nature instead of futilely seeking repayment of its wartime loans.'[7] The editors of *Fortune*, *Time* and *Life* magazines, in a joint statement in 1942, called for a 'new American imperialism' whose goal would be 'to promote and foster private enterprise, by removing the barriers to its natural expansion', by creating 'an expansionist context in which tariffs, subsidies, monopolies, restrictive labour rule … and all other barriers to further expansion can be removed.' This vision was strikingly similar to what would later be called neoliberalism, in which 'universal free trade' was seen as 'the ultimate goal of a rational world.'[8]

This imperial vision was articulated just as the US Treasury was taking the initiative, in conjunction with the British Treasury, to develop the plans that eventually led to Bretton Woods. Roosevelt's Secretary of the Treasury, Henry Morgenthau, promised a 'New Deal in international economics'. Important to the final outcome were Keynes's influential attacks on financial orthodoxy in the context of the new 'facts on the ground' – the comprehensive war-time controls over currency and capital flows. But this should not obscure the compromises that were made with the bankers, reflecting the continuing importance of financial capital both inside and outside the state.

The key issue was what role capital controls would be allowed to play after the war. As far as the US itself was concerned, the outcome had already been

prefigured before the war. The New Deal at home had meant corporatist regulation and suppression of competition between financial institutions, but not the suppression of financial capital as a powerful force in American society.[9] The fact that the New Deal at home never extended to controls over the international movement of capital meant that rhetorical bravado of the kind occasionally heard from politicians like Morgenthau, about 'driving the usurious money lenders out of the temple of international finance', should never have been taken too seriously.

By the time many of America's leading capitalists entered the government during the war, the bankers' adamant opposition to an international treaty re-establishing controls over capital movements was well understood. Harry Dexter White wrote a position paper for the US Treasury in 1941 which correctly recognized that any really effective international system of capital controls would require recipient states to cooperate in policing incoming flows of capital that had escaped the controls of other countries. This proposal, however, ultimately got nowhere, as did Keynes's attempt to secure at least voluntary multinational cooperation against currency speculation. To be sure, even the New York bankers were pragmatic enough to see that most countries – with the key exception of the US – would continue to require capital controls after the war. But they never relinquished their view that such controls should be only temporary. They were motivated by their concern to protect investors' rights and for investors to exert discipline on the fiscal policies of governments – and this would 'continue to be part of Wall's Street rhetoric for the remainder of the century.'[10] So while the Bretton Woods Agreement recognized that states could operate capital controls, what was more significant was the US state's own refusal to use such controls, and the expectation in both Washington and New York that other states would use them only for a transitional period of reconstruction.

How short the transitional period was initially expected to be was evident from the great pressure the US put upon the British to quickly make sterling convertible, and the open arms with which Wall Street received a wave of capital flight from Europe immediately after the war. Even when it was recognized that if this continued it would spell the end of European capitalist reconstruction (and thus that even currency convertibility, let alone the removal of capital controls, would have to be postponed), the American state was not prepared to make European controls more effective by controlling capital inflows to the US. Rather, the funds pumped into Europe under the Marshall Plan were provided on terms that were meant to reinforce what European finance was demanding of European governments, i.e. 'to balance their budgets, restore financial stability, stabilize the exchange rate at realistic levels and enhance mutual cooperation.'[11] The use of 'offsetting financing'

– which would become the primary means of coping with capital flight in the neoliberal era – had been discussed at Bretton Woods but was formally rejected there in favour of capital controls. Yet this is what the Marshall Plan in a certain sense amounted to, at a time when the new International Monetary Fund had insufficient resources to play much of a role.[12]

The Bretton Woods rules and international institutions like the IMF did allow more flexibility in national adjustments to international imbalances. But what was really crucial was that the American state's acceptance of (what it always saw as temporary and transitional) barriers to selected US exports and investments helped to incorporate the Western European (and Japanese) states into the new imperial order. It tolerated their undervalued exchange rates, and used its financial and military aid to facilitate their access to American equipment and technology, while at the same time encouraging European economic integration. An important study undertaken in the early 1950s by leading American bureaucrats and academics concluded that '… the inability to realize the goals of Bretton Woods policy except marginally inevitably shifted the center of gravity and the orientation of American foreign policy away from attempts to apply universal trade and monetary prescriptions.' By 1948 it was already clear that 'internationalist trade and monetary policies and universal inter-governmental agencies play a peripheral or waiting part', while American programs and government agencies 'occupy the center of the stage.'[13]

The American state did not so much dictate to the European states as structure their options in the post-war period so that the reproduction of European capitalism depended on its international integration. It thereby 'internationalized' these states in terms of their goals and consequent responsibilities. Given the challenge (and potential contradictions) facing Europe in rebuilding its infrastructure while also rebuilding its social relations, relying on Bretton Woods alone was doomed to fail. The overwhelming economic dominance of the US would have led to balance of payments crises that the newly formed IMF clearly could not handle; 'fixed' exchange rates would have had to be repeatedly adjusted; beggar-my-neighbour trade policies would have been revived. It was the intervention of the American state in shaping the pattern of European reconstruction which – far more then the 'repression' of finance via Bretton Woods, or the deployment of Keynesianism as a policy technique – made the postwar golden age of capitalist growth possible.

Marshall aid itself had obvious strategic, trade and ideological purposes apart from financial stabilization and economic growth, all linked to strengthening Europe's capitalist classes. The post-war balance of class forces meant that labour could not be repressed as it had been before, which made

it all the more important that financial capital should be reinforced. How far this could be accomplished varied from country to country. But it was certainly expressed in the determination with which the Bundesbank and the Finance Ministry in Germany espoused neoliberal monetarist policies throughout the post-war period. And, in the UK, the Bank of England – even after its nationalization by the post-war Labour government – continued to represent the interests of the City of London, often in alliance with a UK Treasury increasingly obsessed with restraining union wage power under conditions of high employment. Meanwhile, the Bank of International Settlements, having been saved from Keynes's attempt at Bretton Woods to extinguish it, was preserved as a bastion of financial orthodoxy. It was turned to practical as well as ideological use when, with American support, it became the vehicle for running the European Payments Union mechanism in the late 1940s.

But all this paled beside the special place that American financial capital itself occupied in the world capitalist order. The outcome of the war had effectively put the world on the dollar standard, and the Bretton Woods Agreement had effectively ratified this. Although the dollar was nominally backed by gold, the day could already be foreseen when gold would be demonetized 'along with copper, nickel, silver, not to mention wampum and clam shells.'[14] The dollar already had a unique status: as reserve currency; as vehicle currency through which firms were generally invoiced and other currencies were exchanged in international commerce; and as store of value for financial assets (including for the issuance of public and private long-term bonds). And this status was based, above all, on the immense size, depth, liquidity and openness of the US domestic financial markets.

The New York bankers had considerable influence in the Treasury under the Truman administration, even though 'lingering New Deal suspicion of Wall Street [had] culminated in one last cannonade' in the form of an antitrust suit launched in 1947 by the Justice Department against the investment houses that handled 70 per cent of Wall Street underwriting. But when this suit failed in the courts a few years later, it was a 'watershed in the history of Wall Street' that 'finally freed the Street of its image as the home of monopoly capitalists … the investment bankers finally proved they were vital to the economy.'[15]

The post-war economic boom and the financial bull market through the 1950s provided the space for American finance, even while still operating within the framework of the New Deal regulations, to further deepen its markets at home and expand abroad. Financial institutions of various types across the country not only participated in the rapid growth of industry but also found ways to encourage and take advantage of rising consumerism to

draw in the working classes, especially through consumer loans and state-backed mortgage securities. International portfolio investment recovered slowly in the 1950s, but New York's investment banks, far from suffering from their exclusion from commercial banking under the New Deal financial legislation, became unrivalled in terms of the role they played (and the fees they earned) in capital-intensive infrastructural 'project financing' and in the placement of corporate, state and World Bank bond issues.[16] Although interest rates were low during this period, rising volumes and stable spreads between interest charged and interest paid supported profitability. The profits of financial firms grew faster than non-financial profits through the 1950s and 1960s: between 1945 and 1952 the average annual growth in profits in finance was 18 per cent compared to 11 per cent in the non-financial sector; from 1953 to 1969 the comparison was 7.5 per cent vs. 4.5 per cent.[17] Robert Rubin, the future Secretary of the US Treasury who joined Goldman Sachs in 1965, recalls one of the old guard telling him in the early 1970s 'that we junior partners would be unlikely to ever do as well financially as the older partners had because there would never be another period as good as the one that had just passed.'[18]

In the new dollar-centred international financial system the relationship of the rest of the world, and especially of Europe, to American finance could not be limited for very long to borrowing through financial services located in New York. Before the war, the branches of American investment banks had acted mainly as diplomatic outposts for their home offices, but by the late 1950s and early 1960s they had become dynamic financial actors inside Europe. This involved the export of American banking techniques and expertise, and facilitated an explosion of foreign direct investment by American multinational corporations. And US commercial banks, barred since the New Deal from investment banking activity at home, also jumped at the chance to set up foreign branches in Europe so that they could conduct the full range of activities requested by their American clients – and soon were also wooing European companies. This penetration of Europe by American corporations and banks meant the implantation of American capital as a class force inside European social formations, whereby '… economic expertise, social norms, and cultural habits are transmitted by the investing firm. This ties the recipient economies into the broader social totality out of which the investment has come, thereby broadening the basis of social relations upon which it rests.'[19]

The emergence of the Eurodollar market advanced this process very considerably. Initially using loopholes in exchange control regulations to set up external dollar accounts for Soviet-bloc and Arab states which were wary of banking in New York, British merchant banks switched their international

operations from sterling to the dollar to take advantage of currency convertibility and the loosening of capital controls in Japan and Europe at the end of the 1950s. This provided a completely unregulated international repository for the dollar at a time when rates of interest in New York were still limited by New Deal regulations. Encouraged by the British authorities as a way of maintaining the City of London as an international financial centre, the effect of the Eurodollar market's emergence was to move the City – and through it, European finance in general – more closely into the American imperial embrace. In this type of new imperial order, moreover, capital controls based on the distinction hesitatingly drawn at Bretton Woods between 'productive' and 'speculative' financial flows increasingly broke down. Not only the unregulated Eurodollar market but also the intra-firm transfers that characterize so much foreign direct investment lay at the root of the eventual abandonment of capital controls in the 1970s.

Perhaps most important, the form that capitalist integration had by now taken affected the social formations of all advanced capitalist states, so that, even while economic competition among the advanced capitalist states returned, any revival of inter-imperial rivalry was foreclosed. Taking Germany as an example, the trade patterns in place by the late 1950s were themselves a factor in limiting protectionism, but the penetration of American direct investment affected (amongst other things) the nature of German capital – not just directly (GM, Ford, IBM) but also via suppliers, banks, and customers. This was reinforced by German firms' consequent need to establish a countervailing presence in the US, all of which tended to create cross-border networks of finance and integrated production.

The point is not that a transnational capitalist class had emerged, operating in a transnational ether beyond states, but something more complex. The capitalist class of each country retained its distinctiveness, but both the capital historically rooted there and the foreign capital that established itself alongside it now depended on each other's states, and especially on the American state, to expand and manage the capitalist order.

II. FROM BRETTON WOODS TO NEOLIBERALISM: 'HESITATIONS AND FALSE STARTS'

Once we recognize the post-war period as the cradle of a new, globalizing and liberalizing American imperium, its implications for future developments become clearer. By the end of the 1950s the American state was not merely at the apex of a hierarchy of states, but was by now a qualitatively different kind of state from the rest, and was internationalized in a distinct way. To be sure, the US had not simply imposed itself on Europe; it required the active participation of European states in the transformation of capitalist order

in the postwar period.[20] But while all the advanced capitalist states increasingly recognized (to varying degrees) the responsibility they had to participate in the management of international capitalism, they also recognized – and increasingly insisted on – the central role the American state had to play in this. Only the American state bore the burden – and had the accompanying capacity and autonomy – to take on the task of managing the system as a whole.

Yet how exactly the American state was to do this became the burning question of the 1960s and 1970s. It might have been thought that the provisions of Bretton Woods would really come into their own once the period of reconstruction was completed towards the end of the 1950s. As European economic competitiveness was restored and currencies were made convertible, the post-war dollar shortage turned into a dollar glut thanks to European and Japanese exports to the USA as well as American military expenditures and foreign investments. In this new context, the contradictions of the Bretton Woods framework, above all those involved in its treatment of the US state as equivalent to any other state, increasingly began to reveal themselves. The fact that the deep penetration of Europe by US capital at this time coincided with an emerging crisis of the dollar meant that the consolidation of the new structure of imperial power was sometimes obscured. It was a situation that proved confusing to all the main actors – including the Americans. The *sang froid* with which the Fortune editors had proclaimed in 1942 that the new American empire would not be 'afraid to help build up industrial rivals to its own power … because we know industrialization stimulates rather than limits international trade' was no longer in evidence in 1960, as both the outgoing Eisenhower Administration and the incoming Kennedy Administration panicked over the new American balance of payments deficit.

The introduction in the early 1960s of American controls on the export of capital for the first time since the war was certainly not welcomed by the New York bankers, who instead demanded – as did central bankers in Europe – higher American interest rates to cope with the problem. But the fact that these controls were seen as temporary and were accompanied by further US encouragement of other states to remove their capital controls, showed how limited an about-face it really was; it actually had the effect of further encouraging American banks to set up as direct participants in the Eurodollar market. This was an effect the American state was well aware of and even encouraged, as it served to sustain the value of the dollar and provide access to European funds, as well as reinforce the international predominance of US banks. In any case, given the option for the holders of dollars of converting them into gold, the controls would had to have been

much more stringent to stem the falling confidence in the dollar.

Yet balance of payments deficits did not have the same meaning for the United States as they did for any other state. This was not widely recognized at the time, but as an obscure paper prepared for the Federal Reserve of Boston in 1971 pointed out: '*[T]his asymmetry appears to be appropriate, for it corresponds to an asymmetry in the real world*'.[21] However, before this perspective could be universally accepted (especially amongst bankers), the fiction of a gold standard behind the dollar standard would have to be abandoned and replaced not only by flexible exchange rates but types of global financial markets that could sustain them. And it would have to come to be seen that, far from necessarily representing a diminution of American power, the outflow of capital and the balance of payments deficits were actually laying the basis for a dollar-based credit expansion and financial innovation, both domestically and internationally – what Seabrooke appropriately calls the 'diffusion of power through the dollar.'[22] Above all, it would be necessary for the American state, as the imperial state, to retain the confidence of the ever more dynamic and powerful financial capitalists in the face of the pressures on the dollar. All this implied addressing the deeper contradictions of the Bretton Woods arrangements for fixed exchange rates and tying the dollar to gold, which by then had become a barrier to the American state's capacity to navigate between its domestic and imperial responsibilities.

Especially important in this regard was the way class relations had developed in the advanced capitalist states during the Keynesian era. Under the near full employment conditions that had arrived by the early 1960s, the militancy of a new generation of workers drove up money wages and challenged managerial prerogatives, with negative implications for productivity. At the same time, new social justice political movements drove up the social wage, and the 'new left' that emerged from the rapid expansion of post-secondary education had radicalizing effects in the political arena. But this did not amount to the kind of fundamental class realignment that could have sustained policies to move beyond Bretton Woods-style controls on external capital flows, to democratic controls over investment itself. Without this, inflation was the inevitable result of the 1960s militancy – and it was exacerbated by a growing revolt in the 'third world', leading to increased military costs as well as rising commodity prices.

Because capital – and not least financial capital with its natural aversion to inflation – was also strong, the contradictions became intense. Finance felt doubly pressured in the 1970s. Not only was it affected by the general crisis in profitability, but the form this crisis took particularly affected financial assets. As industrial capital – supported by the state's accommodative fiscal and monetary policies – raised prices to protect its profits, the resultant infla-

tion devalued financial holdings. Yet financial capital was not passive in this period. Matching the rise of the new left was a new generation of MBAs, 'bright and ambitious students… paying more attention to business strategy, product development, marketing, and costs, the stuff of business-school curricula.'[23] Amidst a wave of takeovers and mergers, banks competed to recruit this ambitious new generation who developed key innovations in financial services, building on the development of certificates of deposit that initiated the 'securitization' of commercial banking (i.e. the shift from depositing money in a bank to buying a tradable financial asset from it). This transformed the role of banking from direct credit intermediation (taking deposits from and loaning money to particular customers) to mediating the interactions of lenders and borrowers in depersonalized securities markets. The vast expansion of risk arbitrage and block trading for institutional investors soon followed, and it was out of this that, in turn, the revolution in derivatives and hedge funds so crucial to the globalization of finance eventually emerged.

The privatization and liberalization of finance, which is usually dated from the 1980s, actually begins much earlier, with the state playing a direct and active role. In the 1960s, the decline of American foreign aid created pressures on foreign governments to find ways to get access to private credit; and this occurred alongside the advent of the deregulated Eurodollar market and the expansion of private foreign direct investment as the major form of capital flows. Later in the 1970s, after the Americans ended the convertibility of the dollar into gold, leading to the end of fixed exchange rates, there was an explosion of new market-based securities designed to meet the need of traders to hedge against the risk associated with floating exchange rates. Meanwhile, as economic growth slowed down, not only was the increasing public debt of the advanced capitalist states financed through private channels, the American state also insisted on recycling petrodollars to the third world through the private banking system. The increased opportunities, greater risks, and especially intensified competition that flowed from this privatization of credit led to further dramatic innovations in finance, especially the magnification of the range of securities.

The impact on American financial institutions of inflation, low real interest rates and stagnant profits in the 1970s accelerated the qualitative transformations of these years, which increasingly ran up against the old New Deal banking regulations. This was what prompted the global 'financial services revolution' that Moran dates as beginning in the mid-1970s with the abolition of fixed rates on brokerage commissions on Wall Street.[24] Monetary instruments that had previously seemed exotic now became basic parts of the financial landscape: money market mutual funds, for example, emerged to

account for $25 billion in assets by 1979 – and by 1981, they had further quadrupled. The assets of foreign banking offices in the US increased eight-fold in the 1970s (matching the growth of the Eurodollar market), while the assets of American banks abroad increased almost seven-fold, and portfolio flows amongst the G7 increased eleven-fold. By the end of the 70s, the foreign earnings of the five largest American banks accounted for over half of their total earnings. Nor should it be thought that these developments took place within a self-contained financial sphere divorced from production and trade. US trade actually doubled as a share of GDP in the 70s, and foreign direct investment amongst the G7 increased almost six-fold.[25]

As financial capital outgrew the cradle of Bretton Woods, however, it ran up against the militant labour and other popular forces of the period. Every advanced capitalist state had to deal with the underlying problem of class relations in this period. Since none of them was about to repress financial capital, they had to curtail the power of labour. Social democratic governments in Europe tried to cope by wooing trade unions into corporatist arrangements for wage controls, a strategy that increasingly proved unstable as workers revolted against their own unions.[26] In France, where low union density and Communist strength in the labour movement ruled this out, de Gaulle tried to return to the gold standard as a way of imposing austerity at home. Going back to the gold standard had the added attraction of undermining the dollar internationally. In the end this led nowhere. In May 1968, after de Gaulle granted a huge wage hike to derail the general strike and induce labour away from the revolutionary ambitions of the students, he acknowledged that the gold standard would have denied him this flexibility and 'stopped daydreaming about a return to gold.'[27]

As for the US itself, the Nixon administration elected in 1968 was caught between the call for higher interests to reduce capital outflows and the political costs associated with the increased unemployment this would cause. As Gowa's study shows, when it finally terminated the dollar's link with gold in 1971 after two years of trying to 'muddle through', this was more an act of expedience than one conceived as a dramatic break with Bretton Woods.[28] Far from providing any long-term solution, it was a way to avoid addressing the underlying contradiction of class relations that lay at the root of the inflation and dollar crisis of the period, which nothing less than breaking both the New Deal framework and the domestic power of American labour would accomplish. Such a neoliberal solution was presaged by the measures the US Treasury and New York Federal Reserve Bank required of the British Labour government during the 1976 IMF crisis, leading to the explicit abandonment of Keynesianism even before the election of Mrs. Thatcher.[29] But the asymmetry amongst the capitalist states in

the new imperial order was such that until the American state dealt with the problem at home, no such solution abroad could be stable.

In spite of the problems faced by the American state through the 1970s, no serious challenge surfaced to its international dominance. This was partly because, despite the incontrovertible *force majeure* the US displayed in ending the dollar's convertibility to gold, the American state still remained concerned not to play up its dominant position too much. As an interdepartmental group chaired by Volcker (then undersecretary for monetary affairs in the Nixon Treasury) said in a 1969 report, even while seeking 'a substantial degree of U.S. control [of the international monetary system] … in the interests of facilitating international harmony the appearance of US hegemony should not be sought.'[30] But at a deeper level it was the American penetration of the other developed capitalist countries, and the dense institutional linkages that had evolved between them and the US, that determined that inter-state tensions were limited to renegotiating the terms of the imperial relationship, not questioning its essence. Within the third world, instances of attempted withdrawal from American-led global capitalism were contained (the American defeat in Vietnam had not led to any domino effect) or turned around (the overthrow of Allende being followed by the introduction of neoliberalism under Pinochet), while the recycling of petrodollars further integrated the third world into global financial circuits.

Yet the management of global capitalism remained problematic. What had not emerged were the disciplinary mechanisms needed to adjust national economies to the rhythms of international accumulation. An immediate barrier to such a development was that the American state itself had not imposed the necessary domestic discipline that would allow it to maintain the value of the dollar as the international currency, a failure that was manifested in inflation in the US, and turmoil in international financial markets. While the end to dollar-gold convertibility in 1971 temporarily increased American foreign policy autonomy and avoided drastic domestic austerity, it did not end the tension between the American state's imperial and domestic roles. It did not yet mark, as is sometimes suggested, 'the dawning of a new international regime for money and international relations.'[31]

In the context of the floating exchange rates, petro-dollar recycling, expanding financial markets, continued labour militancy and 'soft' monetary policy that characterized the 1970s, by the end of the decade the American state was scrambling to deal with double-digit inflation, a declining dollar and, above all, large outflows of capital. Even the sober Bank for International Settlements went so far as to speak of 'a genuine Dollar crisis';[32] and there was a degree of discontent on Wall Street 'not seen since the last

days of the Hoover presidency.'[33] Looking back to his appointment as Chairman of the Federal Reserve at the end of the 1970s, Paul Volcker recalled 'all the hesitations and false starts, the uncertainty and questions' after a decade in which 'theorizing and empirical analysis about stable and predictable relationship[s] ... seemed to break down in the United States and other countries'.[34]

III. THE VOLCKER SHOCK: FINANCE AND THE RECONSTITUTION OF EMPIRE

It was in this context that the 'Volcker shock' of 1979-82 brought to a definitive end two decades of policy confusion and tension between the state's imperial and domestic roles, through what Volcker himself called a 'triumph of central banking'.[35] This triumph was political, not technical. Like the first panic over the value of the dollar that marked the transition between the Eisenhower and Kennedy Administrations in 1960, the Volcker shock also spanned the transition between two Presidents of otherwise very different temperaments, Carter and Reagan. Volcker was himself no more than a 'pragmatic monetarist' (having first worked in the New York Fed and the US Treasury under Kennedy and Nixon trying to patch up the holes in the Bretton Woods system). What the Volcker shock entailed in policy terms, as he admitted, was not 'very fancy or very precise'.[36] For all the pseudo-scientific econometrics that provided ideological cover for the operation, it simply involved limiting the growth in the money supply and allowing interest rates to rise to whatever level – and at whatever short term economic cost – was necessary to break the back of inflation and the strength of labour. The Federal base rate rose from an average of 8 per cent in 1978 to over 19 per cent at the beginning of 1981 and didn't consistently return to less than double digits until after 1984.

The Fed's brief embrace at this time of the Friedmanite goal of controlling the money supply was contradicted by the diversity of financial instruments that had already developed – and that would soon spread much further under the impetus of extremely high interest rates. As Greenspan later explained: 'Increasingly since 1982 we have been setting the funds rate directly. In the current state of our knowledge, money demand has become too difficult to predict … As the historic relationship between measured money supply and spending deteriorated, policymaking, seeing no alternative, turned more eclectic and discretionary.'[37] The Federal Reserve now explicitly took responsibility for directly declaring an interest rate that would project an unwavering anti-inflationary commitment so as to become the global anchor of a dollar-based world economy. This gave it, as Volcker put it, a central 'role in stabilizing expectations [that] was once a function of the

gold standard, the doctrine of the annual balanced budget, and fixed exchange rates.'[38]

The only possible alternative to this would have involved extensive American capital controls over Wall Street, with cooperation from the European states. The outflows of capital from the US that so worried American leaders by the late 1970s came from American investors as much as disenchanted foreigners. Because the flow went to the unregulated Eurodollar and Eurobond markets, the Fed had at one point proposed that reserve requirements be put on Eurodollar deposits, which in order to be effective would have required other central banks to do the same.[39] Yet this was nothing like the early wartime proposals for cooperative capital controls. With Nixon's rescinding of the temporary capital controls that had been introduced in the 1960s, the American state was now more adamantly opposed than ever to the use of capital controls.[40] But the rejection by the European central banks of an American proposal to set reserve requirements on Eurodollar deposits also indicated the lack of genuine interest on the part of European states for cooperative capital controls. Even on the few occasions when they themselves raised controls as a possibility during the turmoil of the 1970s, it was notable that the European (and Japanese) governments did not push the idea very hard. What they did push hard was that the Americans should apply discipline to themselves.

Indeed, given the degree to which capital markets were already internationalized, effective controls now implied not only a much more far-reaching intervention in financial markets than ever before, but intervention in trade and investment as well. Just as the internationalization of finance had earlier accompanied the internationalization of production, so any attempt to control finance by the 1970s would not be able to leave industrial capital untouched. Not even social democratic governments in Europe were inclined to seriously contemplate such a radical intervention, as was shown by the hostile treatment of Tony Benn's Alternative Economic Strategy in Britain in 1975–6, and the rejection at the same time of the German unions' much milder proposals for investment planning.[41] And however committed (or not) the Mitterrand government in France was to the radical programme on which it was elected in 1981, by then extensive controls on capital and investment had already been ruled out in Europe no less than in the United States.

Thus when the Federal Reserve acted as it did in 1979–82 to show the imperium's own determination to win the confidence of the financial markets through the radical use of monetary policy, it was endorsing the inclination of European governments. They had been trying to cope with inflation in their own economies by shifting away from Keynesianism and

the commitment to full employment, since holding on to these seemed bound to take them in a much more socialist direction than they wanted to go. With global capitalism structured around the dollar as the international currency, and instability of the dollar creating instability everywhere else, the focus was on whether the American state could in fact maintain the value of the dollar in the face of domestic pressures, and thus meet its imperial responsibilities. Having dispensed with a gold-related standard (because the discipline involved had proven too rigid), and in the absence of a solution based on cooperative capital controls (because its de facto implications were too radical even for European social democracy), the issue became the capacity of the American state to act unilaterally to preserve its access to global resources while re-establishing confidence in the dollar.

With the Volcker shock, the US effectively secured acceptance by other states and financial capital of the asymmetric treatment of its external deficit because, indeed, '*it corresponded to an asymmetry in the real world*.' The way American banks had spread their financial innovations internationally in the 1960s and 1970s, especially through the development of secondary markets in dollar-denominated securities, allowed the American state – unlike other states – to substitute the sale of Treasury bills for a domestic pool of foreign exchange reserves and run its economy without large reserves. The only proviso, as Seabrooke notes, was that it maintained a liquid financial system and could attract buyers for its securities in the international markets. Rather than evidence of the origins of a collapse of American hegemony, as many commentators have supposed, 'the US's ability to constantly re-finance its debt obligations is not a sign of weakness but evidence of its great structural power in financial relations'.[42]

The Fed's policy thus placed the need to 'discipline ourselves' (in Volcker's own words) at the centre of both America's economic revival and its international role.[43] The reconstitution of empire, in other words, began at home. And crucial to this, for all the tensions between regions and fractions of capital that attended this restructuring, was that it produced no split either within the American ruling class or between the American and other ruling classes. By the end of the 70s, the non-financial sectors of capital had themselves generally come to acknowledge the need to give priority to fighting inflation and thereby to accept that strengthening financial capital was in their own interests. Far from fighting the emerging leading role of financial capital, industry leaders accepted the costs implied by a finance-led revival of domestic and international accumulation.[44]

Of course, the US-led attack on inflation was only effective in combination with the strong underlying capacities of the American economy: its technological base, depth of financial institutions, and the resources that came

with its imperial role. In breaking the inflationary spiral in the US through breaking the economic power of labour, the American state not only won back the confidence of financial markets, but also put itself in the position to be able to tell other states – all too ready to blame the US for their own inflation – to likewise address their own balance of class forces. And by further liberalizing its own financial markets, it not only deepened the domestic strength and liquidity of these markets but supported their further internationalization. It was this that now crucially sustained the dollar as an international currency and made US government securities seem as good as (indeed, because they paid interest, better than) gold. The resolution of the crisis of the 1970s through the strengthening of the structural power of finance thus reinforced the capacity of the American state to revive global capitalism.

The means by which American inflation and the wage militancy of US labour were broken – high interest rates – also led to an inflow of capital, a stronger dollar, and greater public debt (the Reagan defence expenditures adding to the costs of the induced recession). The consequent increase in international holdings of highly liquid US Treasury bills not only had a major impact on furthering the development of massive secondary markets in bonds, but lay at the core of the reconstituted form of American imperial rule. It allowed the American state to consistently rely on global financial reserves to expand its – and capitalism's – global reach. As this direction was consolidated and international confidence in the US was firmed up, access to foreign capital became less dependent on offering a higher rate of interest. Foreign capital came to the US again because it was a safe haven in a world that had not yet generally followed the American example, and because of the prospect of profitable investment there, given the definitive defeat of the unions in the US. Over the four years from 1975–78, foreign direct investment in the US had totalled $18.5 billion; in the period 1981–87, it *averaged* $22.9 billion *per year*.[45]

The Federal Reserve's success in initiating this turn rested on how convincing it was in its determination that not just short-term, but also long-term inflation would be controlled. This introduced a new parameter in state policy that implicitly accepted lower rates of growth as a corollary to the priority of low inflation, so as to stabilize the dollar and assure its international role. But the Volcker shock's contribution to the new priority of 'breaking inflationary expectations' in the early '80s depended on something more fundamental still.

However it was articulated, the real issue was not so much finding the right monetary policy, as restructuring class relations. Breaking inflationary expectations could not be achieved without defeating the working class's

aspirations and its collective capacity to act to fulfill them. Notably, once the government entered directly into the Chrysler bankruptcy proceedings in 1980, Congress insisted that Paul Volcker sit on the public board responsible for the negotiations with the company, its creditors and suppliers, and the union; and Volcker was indeed finally responsible for securing from the UAW, the highest-profile union in the US, the conditionality (wage cuts and outsourcing) attached to the loan that Chrysler was granted. Meanwhile, outside the purview of the Fed but by no means unrelated to its objective, was President Reagan's smashing of the Air Traffic Controllers' strike in 1981. Indeed, Volcker would later say that 'the most important single action of the administration in helping the anti-inflation fight was defeating the air traffic controllers strike.'[46]

It was on this basis that the American state regained the confidence of Wall Street and financial markets more generally. This proved pivotal to the reconstitution of the American empire by unleashing the new form of social rule subsequently labelled 'neoliberalism' – promoting the expansion of markets and using their discipline to remove the barriers to accumulation that earlier democratic gains had achieved. As vehicles for the most mobile form of capital, the new financial markets contributed strongly to the universalization of neoliberalism in the 1980s and 1990s. The deepening and extension of financial markets that had already occurred by this time – their domestic and international growth, their increasingly multi-dimensional and innovative ties to business, and their penetration of consumer savings – were central to this new form of social rule. The new global market in foreign exchange that had emerged when the gold standard was terminated in 1971 did not itself immediately lead to 'the active international market in financial claims as a whole' that best defines the term 'global finance'.[47] This awaited the development of financial capital's new capacities in creating, assessing and selling new kinds of securities that would spread throughout the monetary system after the Volcker shock.

Crucial here was the increased international liquidity of credit and its contribution to the management of risk. This allowed for what Dick Bryan has called the international 'commensurability of value'.[48] Financial markets, especially through the invention of a large number of financial instruments called derivatives (swaps, options and futures not based on the trade in physical products), put a price on the various dimensions of risk associated with exchange rates, trade, long vs. short-term investments, political developments, etc. This vastly extended the basis for comparing the performance of assets not only across space and time but also across the various dimensions of risk themselves.[49] All this has become central to the dynamics of competition and accumulation in global capitalism.

No less important was the imperial basis of this financialization, above all the full international acceptance, a decade after the dollar was freed from gold, of the dollar's continuing role as the fulcrum of the international financial system. Ultimately, the risks involved in international accumulation are contingent on confidence in the dollar and its material foundations in the strength of the American economy, and in the capacity of the American state to manage the inevitable volatility of financial markets. The post-war boom had reflected this kind of confidence in American power; the reconstitution of empire that began in the early 80s was about restoring it after the uncertainties of the 1960s and 1970s.

The turning point of the 'Volcker shock' thus represented a convergence of imperial and domestic responsibilities. Bound up with renewed capitalist confidence in the US was the free-market, anti-statist rhetoric of Reaganism and Thatcherism. This did not mean the end of regulation, of course – any more than Keynesianism had, conversely, meant the suppression of markets. When the Federal Reserve-supported Depositary Institutions Deregulation and Monetary Control Act (DIDMCA) was passed in 1980 right in the midst of the Volcker shock, it revealed by its very title the futility of any discourse cast in terms of a dichotomy between regulation vs. deregulation, or state vs. market.

Encouraging finance to spread its wings demanded new forms of state intervention to manage the uncertain implications of that freedom. A recent textbook on American finance casually notes, for example, that, 'the financial system is amongst the most heavily regulated sectors of the American economy.'[50] What was at issue was not deregulation but the form that regulation would take. Regulation was re-conceived to emphasize managing, as opposed to preventing, the volatility implied by more open financial markets: improving supervision, requiring self-regulation and, of course, setting interest rates and acting as lender of last resort. This was especially necessary since, alongside the enormous shake-out that interest rates approaching 20 per cent brought about in American industry in the early 1980s, an enormous shake-out in the financial sector also began at this time. Over 4500 banks – 36 per cent of the total – shut their doors between the end of the 70s and the early 90s, not including the Savings and Loans industry collapse, making the period what one Congressional study subsequently called 'undoubtedly the most turbulent years in US banking history since the Great Depression.'[51] The concentration and centralization of banking was offset by, as well as partly due to, the emergence of new financial institutions offering new instruments and services. The financial sector as a whole expanded explosively, both in the US and globally.

This was facilitated by a spate of legislation gradually allowing banks to

operate in securities markets and non-bank institutions to engage in commercial property-lending (thus gradually reversing the provisions of the New Deal's Glass-Steagall Act long before it was formally repealed at the turn of the century). The legislation facilitating competition in the financial services sector was also designed to expand consumer credit markets. The American working and middle classes maintained their standards of living by working longer hours and going into debt. They often re-mortgaged their homes to do so, and commercial banks sold off the resulting debt in packages to investment banks which in turn repackaged them for sale in the derivatives market. On the other side of the ledger, commercial banks relied less and less on deposits for their funding and more and more on selling and trading securities. Meanwhile the New York investment banks famously made out like bandits. As Michael Lewis said in his Wall Street memoir, *Liar's Poker*: 'Had Volcker never pushed through his radical change in policy, the world would be many bond traders and one memoir the poorer .... A Salomon salesman who had in the past moved five million dollars' worth of merchandise through the traders' books each week was now moving three hundred million dollars through each day.'[52]

This trading in securities was so profitable that it not only swept across all the different sectors of finance but soon encompassed industrial corporations themselves. The New York investment banks, moreover, not only increasingly asserted their dominance in the City of London, but became significant actors in all other financial centres. Apart from the competitive advantages they enjoyed from having pioneered the innovations in securitized finance, they were also aided by the other financial centres' emulation of New York's 'big bang', and by the American state's own concerted actions aimed at the diffusion of its neoliberal regime. The fact that the major New York investment banks took the lead in providing financial services and advice for mergers and acquisitions in all the regional financial centres from Europe to East Asia meant that they came to play a significant role in transforming not only financial markets, but business practices generally, on US lines. Under these conditions, the widely-held belief of the 1980s that Japanese banks were poised to displace American financial dominance was soon shattered. Even the close industry-bank networks for which Japan and Germany were famous could not remain immune for long from the transformations this entailed. A truly global financial system 'based on the deregulation and internationalization of the US financial system', as John Grahl has put it, 'is neither a myth not even an alarming tendency, but a reality.'[53]

IV. FINANCE AND EMPIRE IN GLOBAL CAPITALISM

The historical account we have offered above challenges the conventional bifurcation of the second half of the 20th century into one era based on the suppression of finance (associated with the golden age of capitalism and a beneficent American hegemony) followed by another based on finance's liberation (associated with a decline of both the dynamism of capitalism and the hegemony of the American state). For all the attention that has been paid to the Volcker shock as a momentous turning point in contemporary capitalism, too little attention has been paid to the extent to which its great impact was conditional on the earlier strengthening of financial capital by virtue of its markets having become notably liberalized, with domestic and international developments reinforcing each other.

Many critics at the time insisted that the Volcker shock could not work. High interest rates would induce austerity in the short term, and not only block growth but also fail to reverse the competitive threat from Europe and Japan. Above all, it was argued, shifting power and resources to finance, a section of capital that was unproductive of surplus, would not only increase inequality but also limit long-term accumulation. How far can we say the dire predictions have proven correct? It is certainly the case that the defeat of labour and the reinforcement of financial capital's power since the early 1980s have led to stark and increasing inequality within the US, and between the North and the South. But this by no means entailed a decline in capitalism's dynamism. As we have argued at length elsewhere,[54] while it is true that giving priority to the defeat of inflationary expectations implied slower growth, that in itself hardly qualified as a crisis for capitalism. As Maddison has shown, average annual growth rates in the quarter century after 1973, while below those of the golden age, were still above every earlier period in world capitalism from 1820 to 1945.[55]

As for the implications of the relative increase in the role and power of financial institutions, there was an underestimation of how the deepening of capital markets, and the competitive pressures and mobility they generate, could lead to increased capital productivity and profit rates. They did this not just through their disciplinary impact on firms and governments, but also by reallocating capital and supporting the dissemination of technology across firms and sectors (more rapid exit of relatively inefficient firms, support for risky but innovative start-ups, dissemination of new technologies into old sectors). Both the decline in the rate of profit that signalled the end of the golden age and its subsequent recovery after the early 1980s have been convincingly linked, empirically, to corresponding decreases and then improvements in the 'productivity' of capital (i.e. the output per unit of capital stock).[56]

To be sure, this doesn't answer some larger questions about the contributions of finance to restructuring – questions made more controversial because of disputes about how to conceptualize 'finance'. Of course, credit creation in itself does not necessarily imply an increase in productive activity. But the historical development of financial institutions, accelerating from 1960 onwards, has included the expansion of services beyond the acquisition of savings and the provision of credit. A major change occurred in the very nature of what financial institutions do. As investment houses challenged the former dominance of banks, and as banks remade themselves to counter this threat, 'finance' evolved far beyond its classical role in credit provision and was placed directly at the heart of the accumulation process, essentially introducing a new sector that straddled credit and production. Forms of money themselves became commodities that could be packaged and sold to an unprecedented degree. Furthermore, these financial packages frequently came with new business services, including many previously performed by other sectors (accounting, payroll, information systems, consulting). And they included consumer services that, like Fed-Ex or fast food outlets, completed the delivery of a product or saved time in acquiring a product or service (ATM machines, credit cards). Financial institutions have, at the same time, been early and crucial players in the information revolution, providing the major market for computers and software, and developing key information technologies and systems for themselves and others.[57]

Moreover, the global spread of capitalism could not be sustained without overcoming barriers to managing risk. The development of markets that commodify risk was a response to this. It is clear enough that such markets include morally repulsive speculation, appalling waste, and conspicuous inequalities. They have also added new risks.[58] Indeed, their very necessity within capitalism is a reason to question the acceptability and indeed rationality of capitalism as a social system. But all of this does not erase their importance to *capitalist* development. The deepening of financial markets and the strengthening of financial institutions did increase volatility, but they were also crucial to limiting the negative effects of the very volatility that they engendered, contributing to capitalism's overall dynamism – which of course often works through crises – and supporting the durability of the system. Like transportation, risk management adds a cost to the final product, yet it is a cost that non-financial capitalists have had to accept as part of what makes the expansion of global accumulation possible. The larger share of overall profits that has recently gone to finance certainly includes speculative and rentier gains, but it also needs to be seen as representing in part a return for finance's contribution to keeping general profits higher than they would have otherwise been.

Finally, the deepening of financial markets has played a directly imperial role. It has made it possible for the American economy to attract global savings that would otherwise not be available to it. Those capital inflows are often seen as an imperial tithe the US imposes on other countries ignoring how much of this capital comes to the US for reasons of prudent investment and profitability. In any case, they have sustained the dollar at exchange rates that would otherwise have been lower, making imports cheaper for both American consumers (thus serving to support legitimation and reduce the reproduction costs of labour), and for American industry (supporting US competitiveness, while sustaining the level of American investment and reducing the costs of empire abroad). And it is not only the relative strength of the US economy that these financial markets maintain. They also contribute in other ways to making the empire easier to manage: the inflows of capital and imports of commodities to the US have allowed global savings to be channelled and global exports to be expanded, while mobile financial markets have disciplined and promoted the neoliberal restructuring of other economies, reinforcing the barriers to any attempt to delink them from the global system.

But while finance has proven to be 'functional' for both global accumulation and the American empire, this certainly does not mean that it is not attended by contradictions, let alone grotesque inequalities and injustices. This has been seen in a series of severe disruptions in the accumulation process, above all in the third world, ranging from repeated crises in Latin America to the massive East Asian crisis of 1997-98, while Africa has been in more or less perpetual crisis over this entire period. In our view, the ubiquity of crises over the past two decades is directly linked to the particular features of the way the crisis of the developed capitalist states in the 1970s was resolved. Neoliberalism was born out of a response to that crisis, and focused mainly on stabilizing the relationship between the American economy and the other advanced capitalist countries, even though it was other countries which eventually suffered the worst long-term effects.[59] The reconstitution of the American empire in the early 1980s through higher interest rates launched the third world debt crisis, and the subsequent promotion of neoliberal globalization left a debt overhang that has made it hardly surprising that every application of 'structural adjustment' has itself proved crisis-prone. Moreover, the shift to a greater reliance on markets, and especially volatile financial markets, has meant that the advanced capitalist countries themselves have not been immune from crises. These were registered in the Savings and Loan industry collapse and the stock market crash in the US in the latter 1980s, the exchange-rate crisis in Europe in the early 90s, Japan's decade-long deflation through the 1990s (with its stock and

property asset crashes being followed by bank insolvencies), and the bursting of the American financial bubble in 2000.

Yet each of these crises was relatively contained in terms of its depth, duration, and tendency to spread. How are we to understand this combination of volatility and resilience? The fact that crises are now such a common event is only half the story. Though financial crises may be inevitable, in certain circumstances they may, as Chris Rude has emphasized, also be functional to neoliberalism's reproduction and extension.[60] Analogous to the impact of business cycles, but in a more extreme form and involving more direct imperial intervention, financial crises may be exploited to reduce or remove barriers to capitalist interests that 'ordinary' market or diplomatic pressures could not dislodge. The other half of the story, then, is that over this same period, the capacity to cope with these crises has also grown. The development of this capacity involves an acceptance of the fact that crises cannot, in the present stage of capitalism, be prevented. '[P]eriodic financial crises of one sort or another are virtually inevitable,' Robert Rubin concluded from his period as US Secretary of the Treasury in the 1990s; equally inevitable, in his view, was that the US state would act as 'chief of the fire department.'[61]

The ability of the American state to manage domestic and international economic crises is based not just on the institutional learning and development that has occurred over time within the Federal Reserve and the Treasury (supplemented by cooperation with their counterparts across the G-7) and in international institutions such as the BIS, the IMF and the World Bank, but also on the strength of economic structures outside the state. This is what Greenspan means when he says that the existence of a complex of financial institutions and markets can act as 'a backup' to one another 'to mitigate financial crises', citing how capital markets 'were able to substitute for the loss of bank financial intermediation' in the 1990 recession, and how, conversely, during the 1998 crisis 'banking replaced the capital markets.'[62] To this one might add the way Wall Street was mobilized by the Federal Reserve in bailing out Long Term Capital Management in the shadow of the Asian and Russian crises. And the durability of the American banking system (and the importance of the spreading of risk through securitization) was seen when the bursting of the stock market bubble of the late 90s, to the surprise of many, did not register a crisis of any significance amongst major banks.

There are many today who think that the ballooning US trade deficit portends a much more serious crisis waiting to happen, and one that is likely to prove unmanageable because it implicates the empire itself and its currency. But it is also necessary to put this prospect in historical perspective. When the balance of payments deficit first emerged in the early 1960s, it led

to what now is generally seen as an excessive panic. Robert Roosa, on the other hand, speaking from his experience of trying to address the problem within the Treasury, concluded prophetically in 1970: 'Perhaps, by conventional standards, the United States would have to become a habitual renegade … barely able to keep its trade accounts in balance, with a modest surplus on the current account, with an entrepot role for vast flows of capital both in and out, with a more or less regular increase in short-term dollar liabilities used for transaction purposes around the world.'[63]

In the 1970s it was widely assumed that the American trade deficit would necessarily lead to American protectionism. There has certainly been plenty of nationalist sentiment in the US, but rather than withdrawing from world markets the American state has consistently used the threat of protectionism to beat down foreign opposition to the global neoliberal project, thereby transforming 'nationalist impulses into strategies for opening up other nations' markets.'[64] There has been a continuous deficit since the 80s and it has not alarmed investors, who seem to think that an American deficit is not necessarily an intractable problem.

Nevertheless, that deficit has now increased dramatically and remains at stubbornly high levels, in spite of recent decreases in the value of the dollar. The current account deficit, which had averaged 1.7 per cent of GDP between 1982 and 1997, subsequently increased markedly and by 2003 had reached almost 5 per cent of GDP.[65] Does this not signal a vulnerability to foreign creditors, especially in light of what is often seen to be a structural decline in American competitiveness, especially in manufacturing?

While American foreign direct investment continued to expand through the 1990s, manufacturing at home in that decade actually grew faster – much faster – than in any of the other developed countries.[66] Furthermore, the US led the rest of the G7 in the growth of exports right through the 1980s and 1990s.[67] The US trade deficit was thus not caused by a loss of manufacturing and export capacity but by the enormous importing propensity of a US economy which experienced much greater population growth, and had a much greater proportion of its population working – and working for longer hours – than any other developed capitalist economy. Imports contributed to lowering the cost of reproducing labour and obtaining both low and high-tech inputs for business, each of which facilitated low inflation at home as well as increased exports. There were, of course, particular sectors that were hit hard by the restructuring of American industry, but the overall picture has been one of a relatively strong capitalist economy which, while increasingly unequal and exploitative, has in overall terms held its own in exports, while being able to import ever more by virtue of its relative financial strength.

In considering whether the inflow of capital implies that the US economy

is vulnerable to capital flight, it is once again important to note that over the last decade the inflows did not come in just as compensation to 'cover' the deficit, as imagined by those focusing exclusively on international trade statistics. The inflow of capital was mainly the product of investors being attracted by the comparative safety, liquidity and high returns that come with participating in American financial markets and the American economy generally. The dollar stayed at relatively high levels until recently because of that inflow of capital, and it was the high dollar that allowed American consumers and businesses to import foreign goods cheaply. Lately the inflow has mainly come from central bankers abroad, padding their foreign exchange reserves and limiting the decline in the value of the dollar relative to their own currencies.

All this precisely reflects how the new imperialism has come to differ from the old one. While financial markets in the old pre-world War I imperialism were quite developed in terms of the size of capital flows, they generally took the form of long-term portfolio investment, much of it moving only one way, from the imperial centres to the periphery. In contrast, international markets in short-term securities today are massive and, in the absence of the gold standard, it is American Treasury bills that stand as the world's monetary reserves. As well, the old imperialism limited the extent of manufacturing in the periphery, while the division of labour in the new imperialism has, by way of foreign investment and outsourcing, included the expansion of manufacturing in the third world (though cross-country variation is very substantial, 80 per cent of third-world exports by value are now manufactured products). This has not only contributed to the American trade deficit but as the trade surpluses, especially in south-east Asia, have been recycled into capital flows to the US, this has also contributed to making the imperial power itself, remarkably, a debtor in relation to some third-world countries. Yet at the same time these very developments sustain the American economy's ability to have privileged access both to the world's savings and to cheaper goods.

A major speculative run on the dollar is, of course, not impossible, but the form that the globalization of capitalism now takes makes this less rather than more likely. Global savings outside the US are now some $5 trillion, and as these savings are increasingly integrated into global financial markets and therefore available to the US, it only takes 10 per cent of those savings to cover a US trade deficit of $500 billion.[68] This makes that deficit look more manageable. The largest holders of the dollar in Asia and Europe (the respective central banks) are in any case anxious to block the dollar's collapse because this would threaten their exports to the US, and because it would devalue the dollar assets they hold.

The global economy has developed with and through the dollar as the dominant currency, and there is no evidence to date that the only other remotely serious candidate, the Euro, is about to replace the dollar in this respect. As of 2002, 65 per cent of central bank foreign exchange reserves were in dollars, as compared with only 15 per cent in Euros; the dollar was used in over 90 per cent of transactions in foreign exchange trading, as compared with under 38 per cent in which the Euro was used; almost 90 per cent of over-the-counter derivatives transactions globally involved the dollar, compared with only 42 per cent involving the Euro.[69] This is, however, primarily not an economic issue but an imperial one – and neither Europe nor Japan has shown either the will or the capacity to displace the US from its leading role in the capitalist world. In contrast to the old paradigm of inter-imperial rivalry, the nature of current integration into the American empire means that a crisis of the dollar is not an 'American' crisis that might be 'good' for Europe or Asia, but a crisis of the system as a whole, involving severe dangers for all. To suggest, as Arrighi does, that because the holders of American Treasury bills are now primarily in Asia we are therefore witnessing a shift in the regional balance of power, is to confuse the distribution of assets with the distribution of power.[70]

Although traditional Marxist theories of structural crises provide valid insights into the nature of these discontinuities, they sometimes tend to fetishize crises in the sense of abstracting them from history. As Arrighi once argued, the economic crisis of the late nineteenth century was rooted in a capitalism very different from that of the 1930s or the 1970s in terms of class formation, industrial and financial structures, and state capacities.[71] Clinging to the notion that the crisis of the 1970s remains with us today flies in the face of the changes that have occurred since the early 80s.[72] What kind of crisis of capitalism is it when the system is spreading and deepening, including through sponsoring another technological revolution, while the opposition to it is unable after three decades to mount any effective challenge? If crisis becomes 'the norm', this trivializes the concept and diverts us from coming to grips with apprehending the new contradictions of the current conjuncture.

We need to be careful not to try to counter the conservative conceit of the 'end of history' by renewing predictions of the implosion of global capitalism. A future beyond capitalism is possible, and increasingly necessary from the perspective of social justice and ecological sanity, but capitalism is still in the process of being made. The American state has a privileged position in today's 'making' of capitalism, albeit not an omnipotent one insofar as its rule must operate through other states. The nature of this empire – its complexity, its incompleteness especially with regards to the third world, the fact that it

depends on other states and hence the social formations and class struggles within them, and the weight given in its functioning to inherently volatile financial markets – all these factors combine to create a context in which crises repeatedly occur. Yet alongside the developments that make such crises virtually inevitable has come a capacity – based on structures inside as well as outside the American state – to limit their extent, a capacity that is considerably reinforced by the relative weakness of working classes everywhere. That is, while capitalism is unable to avoid crises, it has so far proven able to manage them. This does not mean that it is no longer useful to speak of contradictions inherent in capitalism, but we must be careful not to make too much of their consequences unless they take the form of class contradictions that raise challenges to both capital (in terms of whether it can adapt and respond) and labour (in terms of whether it can develop the political capacity to build on the openings provided). We must dispense with a notion of 'crisis' as something that leads capitalism to unravel on its own; our theories of crisis must be politicized to integrate the responses of both states and class actors.

The openings for radical change in the present era of capitalism will generally revolve around problems of political legitimacy rather than any sudden economic collapse. In the third world, the neoliberal restructuring of states to support global accumulation has not led to coherent patterns of internal development. The pressure to open up their economies leaves these countries extremely vulnerable to financial crises, given the lack of depth of their financial institutions. The 'new financial architecture' promoted by the American Treasury after the 1997-98 financial crises to require transparency and accountability in the new market economies came to look increasingly hypocritical and implausible as a spate of scandals hit Wall Street. This has tended to delegitimate both the empire itself and those third world states, exacerbated by foreign takeovers of third world banking sectors. The restructuring of other states through direct military intervention, as in the case of Iraq, not to mention the unlimited 'war on terrorism' makes imperial rule more and more visible, and less and less perceived as legitimate.

In the developed countries, neoliberalism has also weakened those dimensions of the state that address legitimation; and as pressures mount in Europe for further 'reforms', the fact that this must be done without the US economy's luxury of access to global savings only intensifies the degree of exploitation that must be achieved in those countries. The American state depends on other states to develop popular backing for its imperial role, and this is becoming increasingly difficult for those states to secure. The economic costs of empire at home are correspondingly higher as popular

forces abroad limit the ability of other states to share the military, economic and rhetorical burdens of empire. Meanwhile measures taken inside the US to secure support for this burden by creating paranoia and suppressing dissent (as in the Patriot Acts) are subverting the very freedoms the US is supposed to be fighting for – and this could become a major focus of debate inside the US itself. This might even coalesce with resentment at home as well as abroad against the instabilities and tribulations that volatile financial markets bring to people's daily lives.

The Left will not, however, go far in creating political openings out of such contradictions by waxing nostalgic about a previous golden age of capitalism, when empire was apparently beneficent and finance allegedly repressed. That the US state was not seen as imperial, and finance was not actually repressed, when the world's working-class movements were strong is part of the unfortunate legacy that we have had to contend with in recent decades. That is why, in trying to analyze the nature of global finance and American empire today, we began by tracing the actual historical process that brought us here. The way out of global capitalism and American empire will not be found in a return to a reformism modeled on the post-war order. The fact that the globalization of capitalism has left virtually no national bourgeoisies for labour to ally with, and few divisions to exploit between finance and industry, helps make the case for struggles at the level of the national state that are anti-capitalist as well as anti-imperial. While we cannot rely on renewed inter-imperial rivalries or financial crises spiralling out of control to clear the way to social transformation, the openings provided by the problems of neoliberal and imperial legitimacy provide an ample terrain for the development of new political strategies that do fundamentally challenge capitalist social relations.

NOTES

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1 Richard Grasso 1997, quoted in L. Seabrooke, *US Power in International Finance*, New York: Palgrave, 2001, p. 151.
2 'Today, there are no more worlds to find. Upon us is the responsibility never laid before on a people – building the world's capital for all time to come'. John DeWitt Warner 1898, quoted in André Drainville, *Contesting Globalization: Spaces and Places in the World Economy*, London: Routledge,

2004, p. 65.

3 Eric Helleiner, *States and the Reemergence of International Finance*, Ithaca: Cornell University Press, 1994. p. 3.

4 P. Volcker and T. Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership*, New York: Times Books, 1992, p. 288.

5 S. Battilossi, 'Introduction: International Banking and the American Challenge in Historical Perspective', in S. Battilossi and Y. Cassis, eds., *European Banks and the American Challenge*, Oxford: Oxford University Press, 2002, p. 27.

6 For our understanding of the specific nature of the American empire today and a detailed account of its historical evolution, see Panitch and Gindin, 'Global Capitalism and American Empire', *Socialist Register 2004*, London: Merlin, 2003.

7 M. Hudson, *Super Imperialism: The Origins and Fundamentals of U.S. World Dominance*, Second Edition, London: Pluto, 2003. The policies the American state had adopted at the end of World War I, insisting on the repayment by its allies of its war loans, made the latter dependent on the German state meeting the heavy reparations payments imposed upon it – and at the same time made all the European states dependent on the loans of New York bankers to meet these obligations.

8 'An American Proposal', *Fortune Magazine,* May, 1942, pp. 59-63.

9 T. Ferguson, 'From Normalcy to New Deal, Industrial Structure, Party Competition and American Public Policy in the Great Depression,' *International Organization*, 38(1), 1984; Helleiner, *States and the Reemergence*, p. 31.

10 L. Seabrooke, *US Power in International Finance*, New York: Palgrave, 2001, p. 53. Seabrooke goes on to say: 'The rejection of capital controls on the dollar provides an obvious example of how Washington's and Wall Street's *interactive embeddedness* impacted upon the framework of international finance'. But 'embeddedness' in this sense, meant the very opposite of the repression of finance, let alone the decommodification of social relations that Polanyi meant by the term. On this, see H. Lacher, 'Embedded Liberalism, Disembedded Markets: Reconceptualizing the Pax Americana', *New Political Economy*, 4(3), November, 1999.

11 These are the words of W.F. Duisenberg, the first head of the European Central Bank, looking back on the occasion of the 50th anniversary of the Marshall Plan, in the context of recalling that 'before receiving that aid each recipient country had to sign a bilateral pact with the US … Along with the carrot thus came the stick. In many ways this is similar to the approach followed in later years by the International Monetary Fund in its macroeconomic adjustment programs.' Speech at dinner held by the President of the Netherlands Bank and the Bank for International Settlements, Washington, D.C., May 15, 1997.

12 In any case, the IMF was staffed with officials who shared the views of the US Treasury and thus employed the 'conditionality' of macroeconomic austerity from the beginning. See the opening chapters of M. Harmon, *The British*

Labour Government and the IMF Crisis, London: Macmillan, 1997. On 'offsetting financing' see Helleiner, *States and the Reemergence*, 1994, p. 61.

13 *The Political Economy of American Foreign Policy*, Report of a Study Group sponsored by the Woodrow Wilson Foundation and the National Planning Association, New York: Holt & Co., 1955, p. 213.

14 C.P. Kindleberger, *International Money: A Collection of Essays*, London: Allen & Unwin, 1981, p. 103.

15 R. Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, New York: Simon and Schuster, 1990, p. 402; C. Geisst, *Wall Street: A History*, New York: Oxford University Press, 1997, p. 272.

16 'In reality, the Banking Act of 1933 … did the embryo US investment banks, operating (until then) mostly as subsidiaries of commercial banks, a big favour. As independent entities they were able to create and mould the business free from the restraints of the traditional slow-moving commercial banking culture. Put simply the US investment banks wrote the rules while everyone else … was busy trying to work out what investment banking was all about! With such a head start, it is hardly surprising that they remain so dominant.' (T. Golding, *The City: Inside the Great Expectations Machine*, London: Pearson Education, 2001). On the expertise of US banks in 'project financing' (going back to the role they began to play for oil companies in the 1930s), see R.C. Smith and I. Walter, *Global Banking*, New York: Oxford University Press, 1997.

17 US Bureau of Economic Analysis, National Income and Product Accounts, Table 6.16D. http://www.bea.doc.gov

18 R. Rubin (with Jacob Weisberg), *In an Uncertain World: Tough Choices from Wall Street to Washington*, New York: Random House, 2003, p. 81.

19 R. Germain, *The International Organization of Credit*, Cambridge: Cambridge University Press, 1997, p. 82.

20 Most theorists of 'hegemony', with their focus on consent and coercion among states, never quite capture the American penetration that structured this active participation. Poulantzas' notion of American 'penetration' is much richer, yet to the extent that American direct investment is crucial to his analysis, it does not explain the fact that Europe was already well-integrated into the American project before the wave of American investment that began in the mid-fifties.

21 Quoted in Hudson, *Super Imperialism*, p. 327, italics added. Kindleberger was one of the few economists in the 1960s who questioned the significance of the balance of payments crisis in the US, arguing that the deficit largely reflected the American supply of financial intermediary services through borrowing short term capital and lending long in terms of foreign direct investment – a 'trade in liquidity profitable to both sides'- rather than a trade deficit or over-investment abroad as was commonly understood. Kindleberger, *International Money*, p. 43.

22 Seabrooke, *US Power*, p. 68.

23 R. Sylla, 'United States Banks and Europe: Strategy and Attitudes', in S. Battilossi and Y. Cassis, eds., *European Banks and the American Challenge*,

Oxford: Oxford University Press, 2002, p. 62.

24 M. Moran, *The Politics of the Financial Services Revolution*, London: Macmillan, 1991.

25 The calculations in this paragraph are derived from 'Flow of Fund Accounts 1975-84, *Federal Reserve Board,* September, 2003; 'International Operations of US Banks', *Federal Reserve Board Bulletin,* 84/6, June, 1998; and 'International Capital Markets September 1998 – Annex V', International Monetary Fund, October, 1998. See also B. Cohen, *In Whose Interest?*, New Haven: Yale University Press, 1986, pp. 21-31.

26 See L. Panitch, *Working Class Politics in Crisis*, London: Verso, 1986, chs 4-6.

27 G. Arrighi, 'The Social and Political Economy of Global Turbulence', *New Left Review*, 20, 2003, pp. 35-6.

28 See Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods*, Ithaca: Cornell University Press, 1983, esp. pp. 147, 166.

29 L. Panitch and C. Leys, *The End of Parliamentary Socialism*, Second Edition, London: Verso, 2001, chs. 5, 6.

30 Quoted in Gowa, p. 129.

31 P. Gowan, *The Global Gamble: Washington's Faustian Bid for Global Dominance*, London: Verso, 1999, p. 33.

32 Bank for International Settlements (BIS), *Annual Reports*, 1979, p. 3.

33 Geisst, *Wall Street*, p. 320.

34 P. Volcker, 'The Triumph of Central Banking?' Per Jacobssen Lecture, The Per Jacobsen Foundation, Washington, D.C., September 23, 1990, p. 5.

35 As a Federal Reserve paper later exulted: 'In the early 60s, the Federal Reserve was little known outside of the financial services industry and university economics departments. Twenty years later Fed Chairman Paul Volcker was one of the most recognized names in American public life.' M. Goodfriend, 'Monetary Policy Comes of Age: A Twentieth Century Odyssey', FRB of Richmond, *Economic Quarterly*, 83(1), Winter, 1997, p. 1. What follows is partly based on our personal interview with Volcker in March 2003, and draws as well on J. Woolley, *Monetary Politics: The Federal Reserve and the Politics of Monetary Policy*, Cambridge: Cambridge University Press, 1984, pp. 102-5; P. Johnson, *The Government of Money: Monetarism in Germany and the United States*, Ithaca: Cornell University Press, 1998; and C. Rude, 'The Volcker Monetary Policy Shocks: A Political-Economic Analysis', unpublished paper, Department of Economics, New School University, January, 2004.

36 Volcker, 'The Triumph', p. 5.

37 Alan Greenspan, 'Rules vs. discretionary monetary policy', Stanford University, Stanford, California, September 5, 1997, .

38 Quoted in Johnson, *The Government of Money*, p. 178.

39 J. Hawley, 'Protecting Capital From Itself: US Attempts to Regulate the Eurocurrency System', *International Organization*, 38(1), Winter, 1984.

40 Helleiner, *States and the Reemergence*, pp. 101-21.

41 Panitch and Leys, *The End of Parliamentary Socialism*, chs 4-6.

42 Seabrooke, *US Power*, p. 105.

43 Volcker, *Changing Fortunes*, p. 167.
44 This interpretation has been confirmed by our personal interviews with senior executives of the American auto corporations as well as with Paul Volcker. For the UK case, see C. Leys, 'Thatcherism and British Manufacturing: A Question of Hegemony', *New Left Review*, 151, 1985 (also based on interviews with industry leaders).
45 R. Guttman, *How Credit Shapes the Economy*, New York: Sharpe, 1994, p. 334.
46 Quoted in John B. Taylor, 'Changes in American Economic Policy in the 1980s: Watershed or Pendulum Swing?', *Journal of Economic Literature*, Vol.. XXXIII (June 1995), p. 778.
47 See J. Grahl, 'Notes on Financial Integration and European Society', paper presented to 'The Emergence of a New Euro-Capitalism?' conference, Marburg, Oct. 11-12, 2002, published in M. Beckmann, H.-J. Bieling and F. Deppe, *Euro-Kapitalismus und globale politische Ökonomie*, Hamburg, VSA Verlag, 2003, p. 1. By the end of the 70s, foreign exchange transactions were already ten times higher than that of trade, although this represented only a taste of the explosive growth to come.
48 D. Bryan et al., 'Financial Derivatives and Marxist Value Theory', School of Economics and Political Science Working Papers, University of Sydney, December, 2000.
49 See Adam Tickell, 'Unstable Futures: Controlling and Creating Risks in International Money', *Socialist Register* 1999, esp. pp. 249-51.
50 F.S. Mishkin, *The Economics of Money, Banking and Financial Markets*, Boston: Addison Wesley, 2000, p. 41.
51 A. Berger et al.., 'The Transformation of the US Banking Industry', *Brookings Papers on Economic Activity*, Vol. 1995, No. 2, 1995, p. 57.
52 M. Lewis, *Liar's Poker*, New York: Penguin, 1989, pp. 35-6.
53 J. Grahl, 'Globalized Finance: The Challenge to the Euro', *New Left Review*, 8, 2001, pp. 43-4. On the growth of American investment banks abroad, see R.C. Smith, *The Global Bankers*, New York: Plume 1990, pp. 45-6; Thomson Financial (http://www.thomson.com) offers the best data on these banks in mergers and acquisitions.
54 L. Panitch and S. Gindin, 'Rethinking Crisis', *Monthly Review*, 54(6), 2002; Panitch and Gindin, 'American Imperialism'..
55 See Angus Maddison, *The World Economy, A Millennial Perspective*, Paris: OECD, 2001, esp. p. 265.
56 G. Duménil and D. Lévy, 'The Profit Rate: Where and How Much Did It Fall? Did it Recover? (USA 1948-2000)', *Review of Radical Political Economy*, 34, 2002; G. Duménil and D. Lévy, 'Neoliberal Dynamics – Imperial Dynamics', Cepremap, Modem, Paris, 2003; M.J. Webber and D.L. Rigby, *The Golden Age Illusion,* New York: Guilford Press, 1996.
57 L. Klein, C. Saltzman and V. Duggal, 'Information, Technology and Productivity: The Case of the Financial Sector', *Survey of Current Business*, August, 2003; Berger et al., 'The Transformation'.
58 See Tickell, 'Unstable Futures', esp. pp. 251-7.

59 This was an outcome overdetermined by the fact that the American state in the post-war era had allowed European and Japanese reconstruction to take place via the kind of export-led development that built on and sustained the internal coherence of their domestic economies, while countries in the developing world (which had registered only as a secondary concern among the architects of Bretton Woods and later received no comparable assistance to Marshall Aid) had much more limited space and fewer possibilities to establish their own internal coherence. Attempting to create such internal coherence was out of the question for most developing countries, pressured and tempted as they have been to accept the promise of access to already developed technologies, rich markets and ready finance. If this was so even under the import substitution industrialization strategies permitted in the Bretton Woods era, it was all the more so under neoliberalism.

60 See Chris Rude, 'The Role of Financial Discipline in Industrial Strategy' in this volume.

61 R. Rubin, *In an Uncertain World*, pp. 213-5.

62 A. Greenspan, 'Mr. Greenspan asks whether efficient financial markets mitigate financial crisis', Remarks before the Financial Markets Conference of the Federal Reserve Bank of Atlanta, Sea Island Georgia, *BIS Quarterly Review,* 114, 1999, http://www.bis.org/index.htm.

63 Quoted in Hudson, *Super Imperialism*, p. 319.

64 C. Scherrer, 'Double Hegemony? State and Class in American Foreign Economic Policymaking', *American Studies,* 46(4), 2001.

65 *Economic Report of the President 2004*, Table B-1; US Bureau of Economic Analysis, *op cit.*, Table 4.1.

66 Manufacturing did of course grow faster in Asia, but the US maintained an impressive record vis-à-vis Europe and Japan. According to a US Department of Labor report, the average annual rate of growth in manufacturing between 1990 and 2001 was 3.0 per cent in the US but only 2.2 per cent in France, 1.3 per cent in Italy, 0.4 per cent in the UK, 0.3 per cent in Germany and 0.2 per cent in Japan. E.L. Chao, *A Chartbook of International Labour Comparisons: United States, Europe, Asia*, US Department of Labour, May, 2003, p. 21.

67 See World Trade Organization, *Trade Statistics, Historical Series*, August, 2003, available at www.wto.org. Note, however, that since 1998 there has been a lag in US exports in good part due to the relatively slower economic growth in Europe..

68 *World Development Indicators*, http://www.devdata.worldbank.org/dataonline/.

69 This data is derived from the BIS 2003 *Annual Report* and the BIS *Quarterly Review*, September, 2003.

70 G. Arrighi (with J. Moore), 'Capitalist Development in World Historical Perspective', in R. Albritton, M. Itoh, R. Westra and A. Zuege, eds., *Phases of Capitalist Development*, New York: Palgrave, 2001.

71 G. Arrighi, 'Towards a Theory of Capitalist Crisis', *New Left Review*, 111, 1978.

72 Our analysis clearly differs in fundamental ways from Robert Brenner's *The Boom and the Bubble,* London: Verso, 2002. Apropos the argument being made

here, three such differences are especially important. First, while Brenner does give some historical specificity to the source of the crises of the early 70s – the limits to exit that followed the concentration of capital and the subsequent tendency to over accumulation – we argue that those limits were in fact not of a technical nature but of a political nature, as the escalation of factory as well as bank closures in the early 80s following the Volcker shock clearly shows. That is, even in analyzing 'market competition', the state must be brought into the analysis (and not only in regards to exchange rates). Second, and related to this, Brenner underestimated the capacity of the American state to restructure its domestic base, in part because he reduces the role of finance to an external, ad hoc, instrument that can only postpone 'real change'. Third, while Brenner rightly argues that an economically strong but politically weak working class could not sustain a profit squeeze in the face of capitalist restructuring, had he acknowledged that capital *did* in fact restructure and that the breaking of the working class was fundamental to that project, he might have provided a more credible interpretation of both the earlier crisis and capital's current success. But by insisting that the crisis never ended, he shifts attention away from working-class resistance as both a pivotal factor in causing the crisis and a target of its resolution at the end of the 70s and beginning of the 1980s.