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Capitalism Against the Planet

So what's the problem?

'Capitalism is clearly the best system for generating wealth, and free trade and open capital markets have brought unprecedented economic growth to most if not all of the world.'[1] This statement by Noreena Hertz, who has gone to some lengths to associate herself with the anti-capitalist movement, rather paradoxically sums up the neo-liberal case. Let us concentrate first on the latter part of the sentence. This asserts, as apologists for the World Bank and the IMF have endlessly claimed, that the liberalization of trade and investment of the past two decades has generated rapid economic growth; defenders of the Washington Consensus go on to argue that, thanks to this growth, global poverty and inequality can be reduced. Thus, shortly before the World Trade Organization meeting at Doha in November 2001 launched a new round of trade talks, the World Bank issued a report that estimated that abolishing all trade barriers could boost global income by $2,800 billion and lift 320 million people out of poverty.[2] A more vulgar form of the same kind of argument was provided by Clare Short, British Secretary of State for International Development, when she attacked the Seattle protestors, saying that the WTO was 'a precious international institution' and that 'those who make blanket criticisms of the WTO are working against, not for the interests of the poor and the powerless'.[3]

One could respond critically to this kind of claim in various ways. One can, for example, challenge the equation of human development with economic growth.[4] One can also point to the apparently relentless widening of global inequality that has occurred in the heyday of the Washington Consensus. According to research by Branko Mihailovic of the World Bank, by 1998 the income of the richest 1 per cent of the world's population equalled that of the poorest 57 per cent, while the global gini efficient (which measures the degree of inequality) had risen to 66.[5] It is, however, important to see that the neo-liberal argument can also be challenged in its own terms. The Center for Economic and Policy Research (CEPR) has undertaken a detailed comparison between the era of globalization (1980–2000) and the preceding two decades (1960–80), which saw Keynesian policies of demand management first achieve their apogee in the US under the Kennedy and Johnson administrations and then fall into disarray as a result of the economic crisis of the mid-1970s. The CEPR used several indicators – the growth of income per person, life expectancy, mortality among infants, children, and adults, literacy, and education – in order to compare performance in the two periods. It summarized the results of this comparison as follows:

> For economic growth and almost all the other indicators, the last 20 years have shown a very clear decline in progress as compared with the previous two decades. For each indicator, countries were divided into five roughly equal groups, according to what level the countries had achieved by the start of the period (1960 or 1980). Among the findings:

- *Growth: The fall in economic growth rates was most pronounced and across the board for all groups or countries*. The poorest group went from a per capita GDP growth of 1.9 per cent annually in 1960–1980, to a *decline* of 0.5 per cent per year (1980–2000). For the middle group (which includes mostly poor countries), there was a very sharp decline from an annual per capita growth rate of 3.6 per cent to just less than 1 per cent. Over a 20-year period, this represents the difference between doubling national income per person, versus increasing it by just 21 per cent. The other groups also showed substantial declines in growth rates.
- *Life Expectancy: Progress in life expectancy was also reduced* for 4 out of the 5 groups of countries, with the exception of the highest group (life expectancy 69–76 years). The sharpest slowdown was in the second to worst group (life expectancy between 44–53 years). Reduced progress in life expectancy and other health outcomes cannot be explained by the AIDS pandemic.
- *Infant and Child Mortality: Progress in reducing infant mortality was also considerably slower than during the period of globalization* (1980–1998) than over the previous two decades. The biggest declines in progress were for the middle to worst performing groups. Progress in reducing child mortality (under 5) was also slower for the middle to worst performing groups of countries.
- *Education and Literacy: Progress in education also slowed during the period of globalization*. The rate of growth of primary, secondary, and tertiary (post-secondary) school enrolment was slower for most groups of countries. There are some exceptions, but these tend to be concentrated among the better performing groups of countries. By almost every measure of education, including literacy rates, the middle and poorer performing groups saw less rapid progress in the period of globalization rather than in the prior two decades. The rate of growth of public spending in education, as a share of GDP, also slowed across all groups of countries.[6]

Annual growth rates by region 1961–98

Region	*1961–80*	*1985–98*
OECD	3.8	2.3
Latin America	5.1	3.2
Sub-Saharan Africa	4.2	2.1
East and South-East Asia	6.8	7.5
South Asia	3.6	5.6

Source: J. Weeks, 'Globalize, Globa-lize, Global Lies: Myths of the World Economy in the 1990s', in R. Albritton et al., eds, *Phases of Capitalist Development* (Houndmills, 2001)

These comparisons do not provide much support for the idea of trickle-down – that is, for the thought that faster economic growth would necessarily improve the plight of the poor. To the extent that there was improvement during what the CEPR paper calls 'the era of globalization', it occurred at a slower rate than in the 1960s and 1970s. But – even more striking – rates of output growth per head actually fell during a period when free-market orthodoxy would predict the opposite, since the liberalization of capital and product markets should (according to the theorems of neo-classical economics) have caused growth to accelerate. Moreover, as the authors point out, the comparison can hardly be described as loaded against the neo-liberal era, given that the earlier period encompassed the 1970s, which were marked by the first post-war slump and the beginnings of the second one. Other studies confirm the same picture: consider, for example, the table above, which compares growth-rates before and after the triumph of neo-liberalism.

John Weeks comments:

> the country groups that introduced the globalization policies to the greatest degree fared least well in the 1990s relative to previous decades (the OECD, the Latin American and the sub-Saharan countries); the best performing group since 1960, East and South-East Asia, entered into a severe recession in the 1990s; and the group whose

> growth improved in the 1990s without recession, South Asia, was that which least adopted polic[i]es of deregulation, trade liberalization and decontrol of the capital account. The hypothesis that those policies foster growth is unconfirmed; that is, it is a myth of globalization.[7]

Behind such studies lies the larger fact that the world economy has yet to return to the growth rates it achieved during the Golden Age – what the French call *Les Trentes glorieuses*, the thirty glorious years – of the post-war boom, when trade and investment were considerably more regulated than they have been in the past two decades. Judged by its own yardstick of economic growth, then, neo-liberalism has been a failure. But, from the perspective of the Washington Consensus, the problem has arisen, not from too much privatization and deregulation, but too little. Hence, for example, the constant demands that the continental European and Japanese economies, both stagnant since the early 1990s, should adopt radical free-market 'reforms' that would allow them more closely to approximate the Anglo-American model of *laissez-faire* capitalism and thereby to achieve the dynamic growth that is supposedly a property of this model.

The same thinking led the IMF to demand that Argentina respond to the economic crisis that afflicted it as a result of the East Asian financial crash of 1997–8 with increasingly savage budget cuts. Joseph Stiglitz comments: 'Fiscal austerity was supposed to restore confidence. But the numbers in the IMF programme were fiction; any economist would have predicted that contractionary policies would incite slow-down, and that budget targets would not be met . . . Confidence is seldom restored as an economy goes into deep recession and double-digit unemployment.'[8] Even after these policies had precipitated financial collapse and an extraordinary rebellion of the unemployed and the middle class that brought down President Fernando de la Rúa in late December 2001, the IMF and the US Treasury continued to seek yet more budget cuts from his successor Eduardo Duhalde. The *Financial Times* brutally commented: ‘Argentina can no longer afford its middle class. Economists calculate that real wages must fall 30 per cent for Argentina to compete with its peers around the world.’[9]

For increasing numbers of people, this is a crazy way to run the world. They see neo-liberalism not as the cure, but as the disease. But how deep does the problem lie? To some – Stiglitz is a distinguished example of this approach – the trouble comes, not from capitalism itself, but from a particular set of misguided policies being pursued by Western governments and the international financial institutions. Others offer a similar, if slightly more radical critique by saying that what’s wrong is the prevailing model of capitalism. If only policies were adopted that permitted a return to the more regulated and humane capitalism of the post-war era, then most of the worst ills afflicting humankind could begin to be addressed.[10] A main thrust of this entire book is to challenge this kind of argument. It is capitalism itself and the logic that governs it – a logic of exploitation and competitive accumulation – that is the problem. Neo-liberalism, by stripping away many of the institutions and practices that made capitalism (at least in the prosperous North) bearable, has brought into sharper focus its constitutive defects, but these defects have always been there, and can only be removed, I believe, through its overthrow.

In the rest of this chapter, I begin to develop arguments supporting this conclusion (though it will take the entire book to complete my case). These concentrate in the first instance on the workings of capitalism as an economic system. This kind of economic analysis is essential to developing the anti-capitalist case. In the first place, capitalism is, first and foremost, an economic system – what Marx called a mode of production. Its defenders rely heavily on the claim that capitalism is superior to other social systems above all in its capacity to generate economic growth. Second, economics matters in the sense that individuals' opportunities to achieve the well-being and develop the capabilities that they have reason to value are heavily dependent on their access to productive resources. But the case against capitalism isn't solely an economic one. It is clear that one of the most powerful motivating forces behind the anti-capitalist movement is a rebellion against the process of commodification that has been accelerating since the neo-liberal hegemony was established.

'Le Monde N'est Pas Une Marchandise!' – 'The World Is Not For Sale!' – is one of the main slogans of the movement. It expresses opposition to the wholesale privatization of public assets and services that has spread like a cancer around the world, driven by an alliance of the institutions of the Washington Consensus, politicians who embrace neo-liberalism out of conviction or expediency, and investment banks, multinational corporations, and local businesses that stand to profit from the rundown of the state sector.[11] But this opposition tends to involve more than the belief that privatization has negative social and economic consequences, amply justified though that is by experiences such as the sell-off of Britain's railways. Informing it is a moral revulsion against the debasement produced by the reduction of everything to a commodity to be bought and sold. Of nowhere is this more true than in the cultural sphere. When Theodor Adorno and Max Horkheimer coined the expression 'the culture industry' they intended it as an ironical and critical concept: nothing seemed to them more absurd or contradictory than to reduce the creative processes to an industry governed by the same logic of rationalization as any other.[12] But in Britain today – in Europe at least the vanguard state of the neo-liberal coalition – cabinet ministers refer to the cultural industries without any sense of paradox or discomfort, and the *Financial Times* has a regular supplement called 'Creative Business'. The results of this direct subordination of cultural production to the priorities of profitable accumulation can be witnessed daily on television,

where lust, greed, celebrity, and lifestyle fuse in a mutually reinforcing circuit of nightmarish banality. Nor is this merely a First World concern. For the Zapatista leader Marcos, for example, neo-liberalism is waging 'a planetary war' one of whose aims is 'a destruction of history and culture'.[13] One impulse behind the anti-capitalist movement is the desire to escape, to create a space free from the imperatives of the market.

Financial follies

But how large should this space be? To begin to answer this question we must begin to consider how deeply the trouble with capitalism goes. For many, the problem derives chiefly from the power that financial markets have acquired in recent years. Thus Walden Bello, Kamal Malhotra, Nicola Bullard, and Marco Mezzera write: 'The globalization of finance meant that increasingly its dynamics serve as the engine of the global capitalist system.'[14] The widespread perception, especially since the Asian and Russian crashes of 1997–8, that the dominance of the financial markets has greatly increased global economic instability provided one of the main stimuli behind the mushrooming movement, spearheaded by ATTAC (Association pour une taxation des transactions financières pour l'aide aux citoyens) in France and its affiliates elsewhere, demanding the introduction of the Tobin Tax on international currency transactions.[15]

Behind the asserted dominance of financial capitalism are a number of distinct, though interrelated phenomena:

- To begin with, there is the sheer size of globally integrated financial markets: Daily foreign exchange transactions rose from $800 billion in 1992, to $1200 billion in 1995, and nearly $1600 billion in 1998:[16] these astonishing figures reflect the fact that capital is much more internationally mobile than it was during the era of the Bretton Woods system after the Second World War;

- National governments have become much more vulnerable to the international bond-market where their debt is bought and sold: as John Grahl puts it, 'the globalized bond market is a sword of Damocles suspended over domestic policy-makers' heads', even in the most powerful states, as the Clinton administration discovered in 1993;[17]
- The increasing dominance of investment decisions by stock markets: this can be seen in a variety of ways, ranging from 'securitization' – the transformation of everything possible into a financial asset that can be bought, sold, and speculated in (the Enron energy trading empire developed, among other things, weather futures) – to the pressure on corporate executives to give overriding priority to 'shareholder value' – higher equity prices reflecting at least the prospect of dramatically improved profits, a development that has produced what Grahl calls 'a new balance of forces between proprietors and managers, very much in favour of the former';[18]
- The rapid growth of speculation in increasingly complex financial derivatives reflected in the rise of hedge funds that specialize in these assets, and whose activities can have enormous potential consequences for the world economy, as was shown by the spectacular collapse of the hedge fund Long-Term Capital Management at the height of the global financial panic following the Asian and Russian crashes in the autumn of 1998;
- The US boom of the late 1990s, which combined a genuine expansion of output and productivity (though whether and how far the rate of productivity growth increased is a matter of great controversy) with the development of a gigantic speculative bubble centred on Wall Street: hype and economic reality were hopelessly intermingled in the euphoric – and rapidly

> refuted – belief that the 'New Economy' represented America's liberation from the restraints of the business cycle.[19]

The financial markets are often represented as an autonomous, almost a natural phenomenon: thus television news programmes report the day's share prices along with the weather. Marx described capitalism as a 'bewitched, distorted, topsy-turvy world haunted by Monsieur le Capital and Madame la Terre, who are at the same time social characters and things'.[20] The representation of financial markets as a thing – a natural phenomenon – is one factor in undermining resistance to their negative consequences. But, of course, financial markets are social relations, not things. Moreover, the growth in their power (or, strictly speaking, in the power of actors who operate mainly in the financial markets) over the past generation is partly a result of political and ideological struggles.[21] Thus two crucial stages in the emancipation of financial capitalism in Britain were the abolition of exchange controls in 1979 and the deregulation of the City of London (the Big Bang) in 1986, both measures introduced by the Thatcher government as part of its project of restructuring the British economy along neo-liberal lines.

Britain is exceptional among the advanced capitalist countries in the relative economic weight of its financial sector, but on the world stage the United States has played a major role in facilitating the rise of the financial markets. Peter Gowan has argued that the US responded to the collapse of the Bretton Woods system by promoting in its place what he calls the Dollar Wall Street Regime. The role of the dollar, liberated from the old gold-exchange standard in 1971, in underpinning the international monetary system gave the US enormous political and economic leverage, while the new world of floating currencies encouraged international financial speculation in which American investment banks were particularly well-placed to flourish. Meanwhile the axis binding together Wall Street, the

US Treasury, and the international financial institutions promotes the policies of the Washington Consensus, which open up national economies to foreign investment and make them more vulnerable to the fluctuations of the financial markets, and thus more dependent on this axis.[22]

This brings us to what has become one of the chronic features of the neo-liberal era – the 'emerging market' financial crash. Among the most prominent victims of this phenomenon have been Mexico (1994–5), East Asia (1997–8), Russia (1998), and Argentina (2001–). One of the main demands made of states undergoing structural adjustment is that they liberalize their capital account – i.e. allow the free movement of capital across their borders.[23] Countries that are deemed to be a hopeful prospect by the financial markets enjoy a massive inflow of capital. This is in fact a dubious benefit, since (as in the East Asian case, for example) the flood of foreign capital tends to encourage massive over-investment and the development of large-scale over-capacity, depressing profitability. When foreign investors begin to get a whiff of this, the result is panic, and as rapid and large-scale a flight of capital as there had previously been an inflow. The effect is to precipitate the economy affected into deep recession, though the repercussions can be on a much larger scale. According to one estimate, the Asian crisis and its backwash cut $2 trillion off global output in 1998–2000, representing maybe six per cent of world gross domestic product.[24]

Defenders of the Washington Consensus tend to represent these crises as consequences of the cultural and institutional defects of the afflicted societies. The classic case of this is provided by Western denunciations of 'crony capitalism' after the East Asian crisis, as if corrupt links between politicians, bureaucrats, and corporate executives were a Japanese or Korean monopoly. The collapse of Enron in the winter of 2001–2 – one of the flagships of the Wall Street bubble, its stockmarket valuation plummeted from $70 billion to virtually zero in the course of a year, wiping out the savings of its own employees and threatening those of millions of other workers whose pension funds had invested heavily in Enron – exposed a web of fraud extending from the corporation's head offices through the banking, accounting, and insurance industries and deep into Washington. No less than 212 of the 248 members of Congress serving on committees enquiring into the scandal turned out to have taken money from Enron or its disgraced auditors Arthur Andersen.[25] Other major scandals followed at once feted corporations such as WorldCom.

The same Northern-based speculative capitalism responsible for the Enron and WorldCom scams has played a central role in causing the emerging market financial crashes. What Jeffrey Winters writes about capital flight from South-East Asia in 1997 is true of all the crises of the neo-liberal era:

> The chain reaction was set in motion by currency traders and managers of large pools of portfolio capital who operate under intense competitive pressures that cause them to behave in a manner that is objectively irrational and destructive for the whole system, especially the countries involved, but subjectively both rational and necessary for any hope of individual survival.[26]

The 'rescues' mounted by the IMF and the G7 after emerging market crashes typically indemnify financial speculators for the consequences of their gambles and thereby create what conservative bankers tend to denounce as 'moral hazard' by encouraging investors to undertake even more risky ventures in future. More important still, the terms on which new lending is offered to the governments of the affected countries require them to take yet more doses of neo-liberalism. The effect is both to help foreign investors to cherry-pick the most profitable assets, often at bargain-basement prices thanks to the slump, and to make the economy concerned yet more vulnerable to the ups and downs of the financial markets. Thus, as we have already seen, the disease is offered as a cure of the ills it has caused.

This pattern is encouraging growing scepticism about the neo-classical orthodoxy according to which financial markets can do no wrong. This, at any rate is what the Efficient Market Hypothesis asserts. It was summed up by George Gibson as long ago as 1883: ‘when shares become publicly known in an open market, the value which they acquire may be regarded as the judgement of the best intelligence concerning them.’[27] This ‘hypothesis’ offers a splendid refutation of any claim that neo-classical economics is a neutral science. It is reminiscent of Voltaire’s Dr Pangloss, who never wearied of declaring, whatever the catastrophe, that all is for the best in this best of possible worlds. Other relatively mainstream economists are unwilling to go to the same extreme of complacency. Thus Stiglitz, in technical work that earned him the 2001 Nobel Prize for Economics, has shown that, once the premisses of general equilibrium theory are slightly varied by dropping the assumption that economic actors are perfectly informed, financial markets are not self-correcting: in particular, asymmetries in information between borrowers and lenders may lead banks to set interest rates at levels that attract speculators and deny credit to good firms. He and Andrew Weiss conclude: ‘The usual result of economic theorizing: that prices clear markets, is model specific and is not a general theory of markets – unemployment and credit rationing are not phantasms.’[28]

Looming behind such arguments is the huge shadow of Maynard Keynes. His *General Theory of Employment Interest and Money* (1936) involves a stinging critique of the irrationality of financial markets, including a famous comparison of them with a casino.[29] The other side to this critique is that capitalism is basically a healthy system: provided the state intervenes to regulate financial markets and smooth out the ups and downs of the economic cycle, capitalism is the best system of production.

In the Keynesian era – roughly, between the 1940s and the 1970s – the role of the state took the form primarily of the management of effective demand in order to maintain full employment and of mildly redistributive taxation that, in funding historically high levels of welfare spending, helped to perform this stabilizing function (though, in fact, it was the very high level of *arms* expenditure that was mainly responsible for the long period of economic growth that Western capitalism enjoyed after the Second World War).[30]

National demand management in any case seems less viable in the era of globalization, but one of the main thrusts of the anti-globalization movement has been to come up with other ways of regulating financial markets. James Tobin originally proposed a tax on foreign exchange transactions both 'to throw some sand in the wheels of our excessively efficient financial markets' and to 'restore to national economies and governments some fraction of the short-term autonomy they enjoyed before currency convertibility became so easy'.[31] For movements like ATTAC, the Tobin Tax has the advantage of not merely slowing down global finance, but also generating resources that could be used to fund Third World development: on one estimate, a tax on every foreign exchange transaction of 0.25 per cent would have produced a revenue of nearly $300 billion in 1995.[32]

Considered on its own, then, the tax is a method of reforming capitalism – and in particular of rehabilitating national capitalisms. It implies what one might call a relatively superficial critique of capitalism, one that locates the problem in what Tobin calls 'unanchored' financial markets, rather than at the level of the system itself.[33] Even as enthusiastic a supporter as Heikki Patomäki acknowledges that the Tobin Tax does not address 'the problem of financial *short-termism* as a whole' or 'the *governance of credit and investments* in the global political economy'.[34] The latter issue in particular poses the question of the nature of the system itself, and for that we need, not Keynes or Tobin, but Marx.

The perpetual motion machine

Marx claims that capitalism has two fundamental features – the *exploitation of wage-labour* and the *competitive accumulation of capital*. These in turn correspond to the two relationships constitutive of capitalism – respectively, that between capital and labour and that among capitals themselves. Both are conflictual: the 'vertical' relationship between capital and labour arises from the antagonism that necessarily obtains between exploiter and exploited, while the 'horizontal' relationship among capitals consists in the competitive struggle among the exploiters over the distribution of profits they have jointly extracted from the working class. 'Capital' in the singular, which refers both to the totality of relationships that constitute the capitalist mode of production and to the capitalist class as a collectivity, is therefore to be distinguished from the plurality of 'capitals', the individual units of the system that struggle to exploit and to accumulate.[35]

Treating capitalism as a social system founded on exploitation serves a number of functions. Here are five of them:

1 Marx insists that *class antagonism* is not a secondary or accidental feature of capitalism but defines its very nature: capital is at fundamental odds with the wage-labourers it employs, who comprise all those compelled by their economic circumstances to sell their labour-power and to work under supervision, irrespective of whether they do so in industry or services, or as blue- or white-collar workers.

2 To say, as Marx does in his theory of surplus-value, that the profits sought by capital derive from the

labour of the workers they employ, is to assert that capitalism rests on a profound *injustice*: those who do the actual work of producing goods and services are compelled to labour also to support capitalists whose claim on the fruits of production derives solely from their control of productive resources.[36]

3 Marx's theory of surplus-value *historically situates* capitalism with respect to earlier class-based modes of production: whereas, in these social systems, exploitation depended on a class of unfree producers (whether slaves or some sort of dependent peasantry), under capitalism workers are free in the sense that they are not legally required to serve their exploiters – instead, it is their lack of economic independence that compels them to work for the capitalists on unequal terms that lead to their exploitation.
4 This exploitive set-up implies that it is the workers who are the source of *creativity* under capitalism: capitalists' creativity is at best of a second-order sort, consisting in the ability to take advantage of others' innovations and to get the better of both their workforce and their rivals (this is the rational kernel of theories of entrepreneurship).[37]
5 The theory of capitalist exploitation indicates the *limits* of the system, in the sense that capitalists as a class can only increase their total profits by reducing the real wages or increasing the productivity of the working class: this relation of dependence means that workers are not just exploited – they are powerful as well.

But Marx's theory of capitalism is incomplete so long as it is confined to the vertical relationship between capital and labour. The horizontal relationship between capitals is important for two reasons. First, Marx argues that the competitive struggle of capitals explains *why* exploitation and accumulation are chronic features of capitalism as an economic system. Capitalism is sufficiently competitive for each individual capital to be under constant pressure to reduce its costs of production in order to maintain or even to increase its market share. A benevolent capitalist who paid his workers wages that broadly corresponded to the amount of value that they created would soon find himself out of business. For, directly or indirectly, from profits are funded the investments through which individual capitals expand and/or improve their productive capacity. It is this process of increasing productivity and capacity by the reinvestment of profits that Marx (following Adam Smith) called the accumulation of capital. This is a competitive process because the drive to accumulate is externally induced: the pressure of their rivals compels capitals to improve their methods of production. Marx offers a *structural* theory of capital accumulation: the impulse to accumulate is not to be explained by individual psychology or by the cultural processes explored by Max Weber in *The Protestant Ethic and the Spirit of Capitalism*, but by the structure of compulsions and incentives to which individual capitalists find themselves subjected in the market (though – in principle at any rate – the kind of cultural explanations offered by Weber might help to account for the differential success of particular groups in responding to market disciplines).

Second, seeing capitalism as a system of competitive accumulation helps to explain its *trajectory*. Capitalism is characterized at once by dynamism and by instability. Both these characteristics derive from the competitive struggle among capitals. Productivity-enhancing investments expand the productive powers of humankind. This is the development of the productive forces for which Marx praises capitalism in the *Communist Manifesto* and the *Grundrisse*, even while he distinguishes capitalist relations of production – the historically specific forms of control over productive resources that constitute this mode of production – from the growth in productivity and output of which these relations provide the social framework. But the nature of these production relations also means that the development of the productive forces makes capitalism constitutively liable to crisis.[38] We have already encountered the fundamental mechanism responsible at work in the financial markets, where doing what is individually rational often produces collectively suboptimal outcomes.

Individual capitals invest in improved methods of production in the expectation of obtaining a higher return. The innovator can generally hope to succeed (in the short term at least) because, by lowering his costs of production below average costs in the sector, he can either undercut his rivals by cutting the price of his products and selling more of them or, if he leaves prices unchanged, obtain a higher profit per unit sold. Either way the innovating capital is in a position to put others in the sector under increasing pressure. So they seek to match his innovation. Insofar as they succeed in doing so, average costs of production in the sector will fall. Since the innovator's advantage derived from the difference between his individual costs and the sectoral average, and this difference has now disappeared, so too will his extra profit (what Marx calls 'super-profit', and more recent economists 'technological rent'). Improved productivity generally depends on increasing the plant and equipment that each worker must operate: so the innovation will have been won at the price of a higher investment in plant and equipment per worker (or, as Marx rather unhelpfully puts it, the organic composition of capital rises). But labour is the source of profits. So – unless the rate of exploitation (profits per worker) rises – a larger amount of capital is required to extract the same amount of profit from the workforce. In other words, the rate of profit – the ratio between profits and total investment – falls. The profit-seeking behaviour of individual capitals has thus, once the innovations applied through this behaviour have been generalized, produced a decline in the overall rate of profit.

Extended to the economy as a whole, this mechanism is responsible for what Marx calls the tendency of the general rate of profit to fall. This is only a tendency because it depends on certain conditions obtaining, most (though not all) of which Marx lists – that productivity is raised by saving labour rather than capital, that the rate of exploitation does not increase sufficiently to counteract the effects of the rise in the organic composition of capital (the ratio between investment in means of production and investment in labour-power), or that the means of production do not themselves become cheaper thanks to the productivity-enhancing innovation, once again preventing a fall in the rate of profit (since then the *value* of investment in plant and equipment might have fallen per worker, even if the physical *amount* she operates had risen). But Marx seems to have thought that the most important 'counter-acting effects' are provided by economic crises. A sufficiently pronounced fall in the rate of profit causes capitalists to stop investing and thereby precipitates the economy into a recession. The principal feature of a recession is that capitals either go bankrupt or cut output and employment. The resulting rise in the rate of unemployment reduces workers' bargaining power, placing those who still have jobs under pressure to accept lower wages, longer hours, and worse conditions. This has the effect of increasing the rate of exploitation. At the same time, the stronger capitals can buy up the stocks of bankrupt firms cheap and also absorb the weaker survivors on favourable terms. The value of existing investments is thereby reduced. Together these two processes – a rise in the rate of exploitation and the destruction of capital – increase the mass of profits relative to that of capital. In other words, the rate of profit rises. When profitability has risen sufficiently to stimulate a recovery in investment, economic growth will resume, until the next pronounced fall in the general rate of profit causes another downward turn in this infernal cycle.

Marx's theory of the tendency of the rate of profit to fall is of particular interest because, as it happens, the major capitalist economies began to experience a serious crisis of profitability in the late 1960s. This crisis, however caused, underlies the transition the world economy underwent to an era of slow growth punctuated by global recessions that continues to the present.[39] Marx's own account of the mechanisms responsible for such crises of profitability has proved enormously controversial: it is fair to say that it has been rejected by most conventionally trained economists, even though their reasons for doing so often seem to have more to do with their incomprehension of the distinctive kind of theoretical approach to the capitalist economy that he took than with specific defects of an argument that raises many complex issues.[40] This is not the place to explore these issues, even were I competent to do so. More relevant is the general image that Marx offers of capitalism as a system in which the process of competitive accumulation encourages individual capitals to undertake actions that, while they may in the short term raise their profit-rate, have the longer-term effect of undermining the viability of the system as a whole. Individual profit-seeking produces globally disastrous results. In the rest of this section and in the following one, I explore two contemporary aspects of this paradox, one narrowly economic, the other much broader.

In the first place, one of the driving forces towards crisis in the contemporary world economy is a pronounced tendency towards over-investment. This was, for example, a major feature of the East Asian crisis in the late 1990s. Competition for export markets – intensified by the devaluations of the Chinese renminbi and the Japanese yen in mid-decade – encouraged firms to expand their capacity much more quickly than their profits could grow to match them. The result was massive over-investment and overcapacity. On the eve of the chain of financial crashes that swept through East and South-East Asia in 1997, the *Financial Times* reported:

> At an annual average growth rate of over 20 per cent this decade, investment has been rising about three times as fast

> as growth in domestic gross national product, suggesting Asia has been suffering from a serious case of over-investment. Now . . . capacity use is running at very low levels in countries such as China (below 60 per cent), South Korea (below 70 per cent) and Taiwan (72 per cent).[41]

The inflows of speculative capital fuelled this process of expansion, and then, as the consequences of over-investment became clear, by their withdrawal helped to precipitate Asia into deep recession. Precisely the same interaction of speculative financial markets and competition among industrial firms can be seen at work in the rise and fall of the American 'New Economy' during the great US boom of 1992–2000.[42] This boom was made possible by a recovery in profitability from the low-point reached in the early 1980s, a recovery in turn caused by large-scale economic restructuring that eliminated inefficient capitals, a historically unprecedented repression of real wages, and the devaluation of the dollar relative to other major currencies as a result of the 1985 Plaza Accords. But, by the late 1990s, these effects had worked themselves out. In the middle of the decade the Clinton administration switched to a strong dollar policy (designed in part to help the Japanese economy escape from the stagnation that has dogged it since the early 1990s). The rate of return in manufacturing industry began to fall in late 1997, and the sustained drop in unemployment allowed a moderate rise in real wages. What kept the boom going for three more years was the response of the Federal Reserve Board to the panic that swept world financial markets after the Russian collapse in August 1998 seemed to portend a chain-reaction of crashes in 'emergent markets' that would spread to the centres of global capitalism. The Fed under Alan Greenspan slashed interest rates and took other steps (for example, organizing the rescue of the hedge fund Long-Term Capital Management) designed to bolster confidence.

This policy of what Robert Brenner calls 'stock market Keynesianism' (evidence that the nation-state still plays a major role in the era of globalization) succeeded all too well.[43] American financial markets continued to soar into the stratosphere till March 2000, fuelled in part by inflows of capital seeking the security of the United States. The rise in the value of their stockmarket investments encouraged American firms and affluent households to run down their savings and borrow massively, generating gigantic financial imbalances – in particular, unprecedented levels of private sector indebtedness and a record balance of payments deficit.[44] The same climate encouraged firms to expand their investments in the expectation that their profits would continue to grow sufficiently to justify these decisions. These expectations proved to be mistaken: post-tax profits fell as a share of US national income from more than 12 per cent in 1997 to 8 per cent three years later.[45]

As a result, key sectors of the American and indeed the world economy were confronted with growing problems of over-investment and over-capacity. The industries worst affected were in many cases those most closely identified with the 'New Economy', notably technology, media, and telecommunications. It was this reality that underlay the collapse in this sector's share prices in spring 2000. Nearly two years later the *Financial Times* reported:

> According to the European Information Technology Observatory, investment in telecommunications rose between 1997 and 2000 by about 20 per cent in the US and about 50 per cent in Western Europe.
>
> A large proportion of that investment does appear to have been wasted. One estimate suggests that in the telecommunications industry alone, over the past four years, about $1,000 bn (£690 bn) was, in effect, thrown away, for example in laying fibre-optic cables that may never be used.

> In information technology generally, the legacy of past over-investment is everywhere. Scott McNealy, the chief executive of Sun Microsystems, has said he is having to compete against his own products, sold off as bankrupt stock, at as little as 10 per cent of list price.[46]

As in the case of the Japanese 'bubble economy' of the late 1980s, this overhang of bad investments left over from the boom may make it difficult for the Fed's policy of dramatic interest-rate cuts to stimulate the resumption of rapid growth. But more interesting here than any immediate prognosis of the development of the world economy, is the dynamic revealed by the evolution of the American boom of the 1990s. The same logic was at work there that was also present in the Asian crisis: financial speculation – underwritten by the state – encouraged rival capitals to expand their productive capacity far more rapidly than the growth in profits required to justify these investments. It is this process of uncontrolled accumulation, driven by competition and speculation, that is responsible for the collapse of two of the three largest zones of advanced capitalism into recession over the past decade. From this point of view, the role of financial markets is less as an autonomous source of instability, more as one dimension of a set of interconnected processes driving capitalist economies towards crisis. Marx's own analysis of what he called the 'credit system' seems apposite here: the development of credit money and its availability through the banks and financial markets make it possible to sustain the accumulation process for longer than would be otherwise feasible, but the effect is to postpone – and often to intensify – the onset of the underlying economic contradictions.[47] The financial markets, backed by the Fed, helped to sustain the American boom but that boom was not merely a speculative artefact: it depended on a real, if limited recovery in profitability, and, when the rate of profit began to fall, the collapse of the boom was only a matter of time.

Accumulation and catastrophe

But the same logic of competitive accumulation is at work in other arenas. By far and away the most important of these concerns the natural environment on which all life on the planet depends. In his outstanding environmental history of the twentieth century John McNeill distinguishes between two evolutionary strategies – adaptability to changing circumstances, pursued, for example, by some species of rat, and 'supreme adaptation to existing circumstances', represented by sharks, who rely on the plentiful supply of other sea creatures that they can hunt and eat. McNeill continues:

> In the twentieth century, societies often pursued the shark strategy amid a global ecology ever more unstable, and hence ever more suited for rats. We energetically pursued adaptations to evanescent circumstances. Perhaps a quarter of us live in ways fully predicated on stable climate, cheap energy and water, and rapid population and economic growth. Most of the rest of us understandably aspire to live in such ways. Our institutions and ideologies too are by now built on the same premisses.
>
> Those premisses are not too flimsy, but they are temporary. Climate has changed little for 10,000 years, since the retreat of the last ice age; it is changing fast now. Cheap energy is a feature of the fossil fuel age, roughly since 1820. Cheap water, for those who enjoy it, dates to the nineteenth century except in a few favoured settings. Rapid population growth dates from the middle of the eighteenth century, and fast economic growth from about 1870. To regard these circumstances as enduring and normal, and to depend on their continuation, is an interesting gamble.[48]

These circumstances are mutually dependent: population growth can only be sustained if agricultural production – contrary to Malthus's predictions – grows sufficiently to feed the extra mouths, as it has so far managed to do.[49] They are, however, not necessarily mutually compatible: to take the most obvious case, the rising temperature of the earth as a result of a build-up in greenhouse gases caused by human actions – for example, fossil fuel burning and deforestation leading to rising levels of carbon dioxide in the atmosphere – is likely to have drastic consequences for the life of humans and other species in the twenty-first century. In exploring the causes of these changes, McNeill distinguishes between 'clusters' – 'combinations of simultaneous technical, organizational, and social innovations':

> Early industrial clusters were built around water-powered textile mills and then factories and steam engines. After the mid-twentieth century the dominant cluster emerged as coal, iron, steel, and railroads: heavy-engineering industries centred in smokestack cities. Call it the 'coketown cluster' in honour of Charles Dickens's Coketown . . . The next cluster coalesced in the 1920s and 1930s and predominated from the 1940s (helped along by World War II) until the 1990s: assembly lines, oil, electricity, automobiles and aircraft, chemicals, plastics, and fertilizers – all organized by big corporations. I will dub that the 'motown cluster' in honour of Detroit, the world centre of motor vehicle manufacture. The coketown cluster and the motown cluster each spurred the emergence of giant corporations in North America, Europe, and Japan and the relative efficiency and returns to scale enjoyed by these corporations in turn helped to advance each cluster; technological systems and business structures coevolved.[50]

McNeill speculates that a new cluster may have emerged in the 1990s, possibly centred on genetic engineering and information technology.[51] However that may be, it seems undeniable that this narrative of socio-technical clusters is another way of telling the story of capitalism in its successive transformations from the Industrial Revolution to the contemporary era of neo-liberal globalization. McNeill himself prefers to give a greater explanatory role to ideas, arguing that, for example, the environmental catastrophes that afflicted the Soviet Union had ideological roots: 'Deep in Marxism is the belief that nature exists to be harnessed by labour.'[52] The much more nuanced attitude towards nature displayed by the founders of Marxism is suggested by the following remarks by Engels. After arguing that man through his labour '*masters*' his environment, Engels goes on to write:

> Let us not, however, flatter ourselves overmuch on account of our human victories over nature. For each such victory nature takes its revenge on us. Each victory, it is true, in the first place brings about the results we expected, but in the second and third places it has quite different, unforeseen effects which only too often cancel the first. The people who, in Mesopotamia, Greece, Asia Minor and elsewhere, destroyed the forests to obtain cultivable land, never dreamed that by removing along with the forests the collecting centres and reservoirs of moisture they were laying the basis for the present forlorn state of those countries. When the Italians of the Alps used up the pine forests on the southern slopes, so carefully cherished on the northern slopes, they had no inkling that by doing so they were cutting at the roots of the dairy industry in their region; they had still less inkling that they were thereby depriving their mountain springs of water for the greater part of the year, and making it possible for them to pour still more furious torrents on the plains during the rainy seasons. Those who spread the potato in Europe were not aware that with these farinaceous tubers they were at the same time spreading scrofula. Thus at each step we are reminded that we by no means rule over nature like a conqueror over a foreign people, like someone standing outside nature – but that we, with flesh, blood and brain, belong to nature, and exist in its midst, and that all our mastery of it consists in the fact that we have the advantage over all other creatures of being able to learn its laws and apply it correctly.[53]

Engels here identifies precisely the dialectic of unintended consequences at work in the processes of environmental destruction – global warming, for example – that are now becoming evident. Marx's own attitude to the natural world was similarly complex: alongside the notion of human mastery of nature can be found other themes – for example, an enduring preoccupation with humankind's place in the physical world and a growing concern about the environmental damage caused by capitalist agricultural methods.[54] What encouraged the rulers of the USSR to select from this diverse and perhaps ambiguous heritage those aspects of classical Marxism that seemed to support the idea that nature is something to be conquered and controlled? The answer has more to do with power and interests than with ideology conceived as an autonomous force. The more the Stalinist system recedes into the past, the more it becomes clear that it reproduced – in an extreme form induced by the intensity of internal conflicts and the pressure of geopolitical competition – the tendencies to treat nature as an inexhaustible source of raw material and energy sources that both the coketown and motown clusters presupposed.[55]

The present situation is in any case one where the major forms of environmental destruction arise from the logic of capital accumulation. On the one hand, the motown cluster is very far from being a thing of the past. Quite to the contrary, the giant fossil fuel corporations – the companies that dominate the world's oil, gas, coal, car, road construction, and rubber industries – represent an enormously powerful constellation of economic interests. Having bitterly opposed the feeble targets for reducing greenhouse emissions agreed in the 1997 Kyoto protocol, the American fossil fuel corporations successfully backed a presidential candidate, George W. Bush, one of whose first major acts after entering the White House was to denounce the protocol. Congressional investigations into the Enron scandal exposed how the company had manipulated the deregulated Californian energy industry by, for example, shutting down plants, and exporting power, thereby creating artificial shortages that boosted prices and profits. Enron and other energy traders also engaged in scams like 'roundtripping' – phoney sales that increased turnover and pushed up prices. The Bush administration used the resulting energy crisis in California to demand reduced environmental controls on oil-drilling in the Pacific Northwest. On the other hand, a handful of multinational corporations led by the five 'Gene Giants' – AstraZeneca, DuPont, Monsanto, Novartis, and Aventis – are using the latest technologies to drive through the large-scale introduction of genetically modified organisms, with unpredictable and possibly disastrous consequences, including the spread of food allergies, an increase in the already serious problem of species resistant to antibiotics, and the development of new viruses. The biotechnology corporations' positively obscene aspiration to control the entire food chain is indicated by the development of 'Terminator' technologies, thanks to which genetically modified seeds would produce infertile plants, thus rendering farmers permanently dependent on the suppliers of these seeds.[56]

To see capitalism as the source of contemporary threats to the environment is not, by any means, to treat nature as merely a social construct, the effect of human manipulation. In his masterpiece *Late Victorian Holocausts* Mike Davis sensitively reconstructs the interaction of the El Niño–Southern Oscillation (ENSO) – the recurrent oscillations in oceanic temperatures across the Pacific and the patterns of wet and dry weather they cause – with the increasingly integrated liberal world economy of the late nineteenth century. He shows how, in combination with the erosion of traditional mechanisms for coping with famine under the influence of the Western colonial powers and the increasing subordination of peasant agriculture to the rhythms of the world market, El Niño droughts led to appalling human catastrophes in Asia and Latin America: in India alone between 12 and 30 million people died in the droughts of 1876–9 and 1896–1902. At the same time '[t]he great Victorian famines were forcing houses and accelerators of the very socio-economic forces that ensured their occurrence in the first place': the famine-induced mass pauperization of the great Asiatic civilizations helped to generate the global inequalities in income and wealth between First and Third Worlds that are now taken for granted but were scarcely visible two centuries ago. 'From the standpoint of political ecology,' Davis writes, 'the vulnerability of tropical agriculturalists to extreme climate events was magnified by simultaneous restructurings of household and village linkages to regional production systems, world commodity markets and the colonial (or dependent) state.' ENSO is a set of autonomous natural processes whose existence long predates and will presumably also survive the existence of capitalism: it was only in a particular social and historical context, provided by the integration of peasant societies in the capitalist world market, the disruptive impact of the imperial powers, and the hegemony of liberal ideology, that these processes had such ghastly consequences.[57]

Human intervention in the physical world is inherently liable to the dialectic of unintended consequences portrayed by Engels.[58] He imagined that humans would, with the help of the natural sciences, be able to remedy these consequences when they proved to be damaging. But this process is greatly inhibited by the current domination of capitalist relations of production, which encourage the employment of scientific knowledge to render the physical world (including such abstract properties as genes) as comprehensively fungible and usable. The logic of competitive accumulation thus not merely causes profound economic crises; it is the main force behind the increasingly threatening process of environmental destruction. Trapped in the competitive struggle to gain an edge over their rivals, capitals are driving collectively towards an outcome that portends planetary disaster. Susan George has powerfully evoked this logic:

> It is also chimerical to think that the transnationals and the rich countries will change their behaviour in the least when they finally understand that they will destroy the life of the planet on which we must all live. In my view they couldn't stop even if they wanted to, even for the future of their own children. Capitalism is like the famous bicycle that must always go forwards or fall over and firms are competing to see who can pedal faster before smashing against the wall.[59]

The sword of Leviathan

The argument so far has proceeded as if capitalism could be conceived simply as an economic system, even if its consequences, as we have just seen, extend much more broadly. Since 9–11, however, it has become quite clear that such a perspective is wholly inadequate, that the present system embraces geopolitics as well as economics, and that the competitive processes that threaten such destructive consequences involve not merely the economic struggle for markets, but military and diplomatic rivalries among states. The view, put forward by Third Way ideologues such as Anthony Giddens and Ulrich Beck, that globalization was transforming the liberal democratic state into 'the state without enemies' now seems simply ludicrous in the light of George W. Bush's proclamation of a global state of war on 20 September 2001: 'Americans should not expect one battle, but a lengthy campaign, unlike any other that we have ever seen . . . Every nation, in every region, now has a decision to make. Either you are with us, or you are with the terrorists.'[60]

One of globalization's more vulgar boosters, the *New York Times* columnist Thomas Friedman, proved much more realistic than Beck and Giddens when he declared in a much-quoted passage:

> The hidden hand of the market will never work without a hidden fist.

> Markets function and flourish only when property rights are secured and can be enforced, which, in turn, requires a political framework protected and backed by military power . . . Indeed, McDonald's cannot flourish without McDonnell Douglas, the designer of the US Air Force F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy and Marine Corps.[61]

This fist has hardly been kept hidden lately. The rapid assertion of US military power to topple the Taliban regime in Afghanistan in October–November 2001 left the world shaken by this demonstration of American ascendancy (though subsequent fighting suggested that the Taliban and its al-Qaeda allies had not been destroyed but had withdrawn from the cities to wage a guerrilla war in the mountains of Afghanistan and Pakistan). The *Financial Times* calculated that the $379 billion planned US defence spending in 2003 'exceeds the total combined military budgets of the next 14 biggest spenders – including Japan, Western Europe, Russia and China'.[62] The historian Paul Kennedy wrote a bestseller in the late 1980s predicting that 'the United States now runs the risk, so familiar to historians of the rise and fall of Great Powers, of what might roughly be called "imperial overstretch" ', as US strategic commitments outran its economic capacities.[63] After the fall of Kabul Kennedy could hardly contain his awe for American military supremacy. After an almost loving description of the Pentagon's most important single instrument of power projection – the twelve carrier battle groups, each with 'the capacity to deal out death and destruction across most of our globe', he declared: 'The larger lesson [of the Afghan war] – and one stupefying to the Russian and Chinese military, worrying to the Indians, and disturbing to proponents of a common European defence policy – is that in military terms there is only one player in the field who counts.'[64]

But in whose interests is this immense power exercised? The passage cited from Friedman has almost a vulgar

Marxist ring about it; moreover, it implies that American military might serves to maintain capitalist property relations irrespective of where they are located, or of the nationality of the capitalists who benefit from them. Such at any rate is the view expressed by Michael Hardt and Toni Negri in one of the influential texts of the anti-capitalist movement, *Empire*. For Hardt and Negri, imperialism has been supplanted by Empire, a novel form of capitalist domination that 'establishes no territorial centre of power and does not rely on fixed boundaries and barriers . . . In this smooth space of Empire, there is no *place* of power – it is everywhere and nowhere.'[65] Consequently, according to Negri,

> it is no longer possible to talk about 'American imperialism'. Quite simply there exist groups, elites that control the keys of exploitation and thus the keys to the war machine, and who attempt to impose themselves at the world level. Naturally, this process is highly contradictory and will necessarily be so for a long time to come. For the moment, it is above all the North American bosses who exercise this domination. Immediately behind them, there are the Europeans, the Russians, the Chinese: they are there to support them, or to undermine them, or even to be ready to take over a change of leadership – but this change remains superficial since at the basis what is still and always at work is capital, collective capital.[66]

Though formulated in Marxist language, Hardt's and Negri's analysis bears a striking resemblance to more mainstream theories of political globalization. According to such theories, the post-Cold War era has seen the emergence of forms of 'global governance' that transcend national interests, even those of the strongest state.[67] Contemporary perceptions of US power indeed seem to oscillate between the frustration and fear expressed at evidence of American 'unilateralism', especially since the younger Bush entered the White House, and the belief that this power is progressively becoming the agent of an impersonal structure, whether that structure be conceptualized as the emerging forms of 'cosmopolitan democracy' or as the global domination of 'collective capital'.

The great difficulty for the theorists of global governance is that the world distribution of political and military power both is highly unequal and closely corresponds to the also grossly unequal distribution of economic power. Indeed, neo-liberal ideologues are increasingly willing openly to acknowledge the necessity of a unilateral assertion of Western power vis-à-vis the rest of the world, in other words, of imperialism. One of the clearest statements of this view has come from Robert Cooper, a Foreign Office official close to Tony Blair:

> All the conditions for imperialism are there, but both the supply and demand for imperialism have dried up. And yet the weak still need the strong and the strong still need an orderly world. A world in which the efficient and well governed export stability and liberty, and which is open to investment and growth – all of this seems eminently desirable.
>
> What is needed then is a new kind of imperialism, one acceptable to a world of human rights and cosmopolitan values. We can already discern its outline: an imperialism which brings order and organization, but which rests today on the voluntary principle.[68]

Imperial rulers and their apologists have always claimed to give their subjects 'order and organization'. '*Solitudinem faciunt, pacem appellant*' – They create a wilderness and call it peace: the great Roman historian Tacitus put this riposte by the victims of empire into the mouth of the first-century Caledonian leader Calgacus.[69] An astonishing contemporary philippic against the American empire was recently launched by Chalmers Johnson, a leading American scholar of modern Asia in his book *Blowback*. Johnson – hitherto a figure firmly in the academic and political mainstream – develops a withering critique of American foreign policy. He dismisses 'globalization' as 'an esoteric term for what in the nineteenth century was simply called imperialism', and places the East Asian crisis firmly at Washington's door: 'The economic crisis at the end of the century had its origins in an American project to open up and make over the economies of its satellites and dependencies in East Asia. Its purpose was to diminish them as competitors and to assert the primacy of the United States as the global hegemonic power.'[70]

Developing a comprehensive analysis of 'blowback' – 'the unintended consequences of policies that were kept secret from the American people', Johnson comes close to predicting 11 September:

> Terrorism by definition strikes at the innocent in order to draw attention to the sins of the invulnerable. The innocent of the twenty-first century are going to harvest unexpected blowback disasters from the imperialist escapades of recent decades. Although most Americans may be largely ignorant of what was, and still is, being done in their name, all are likely to pay a steep price – individually and collectively – for their nation's continued efforts to dominate the global scene.[71]

Johnson's analysis of the roots of the American empire is the opposite of Friedman's. Whereas the latter comes close to Hardt's and Negri's view of US military power as a tool of global capital, Johnson reduces the economic to the political: 'Marx and Lenin were mistaken about the nature of imperialism. It is not the contradictions of capitalism that lead to imperialism but imperialism that breeds some of the most important contradictions of capitalism. When these contradictions ripen, as they must, they create devastating economic crises.'[72] But both these extreme positions are mistaken. The Marxist theory of imperialism is capable of offering a non-reductive account of how the logic of competitive accumulation analysed in the earlier parts of this chapter can be extended to cover geopolitical conflicts and military power.[73] This theory was formulated at the beginning of the twentieth century in order to render intelligible a world economy unified by industrial capitalism.[74] It involves three central propositions:

1 This unification was achieved on a highly unequal basis (what Trotsky called 'uneven and combined development'), involving the economic and military domination of the globe by a handful of Western capitalist powers.
2 The development of industrial capitalism within these states induced a process of structural transformation: on the one hand, economic power became increasingly concentrated with the emergence of large corporations and the tendency of money and productive capital to fuse into what Rudolf Hilferding called 'finance capital'; on the other hand, these large firms tended to combine with their nation states into, as Nikolai Bukharin put it, 'state capitalist trusts'.
3 The forms of competition consequently changed: economic rivalries became inseparable from military and territorial conflicts: the resulting economico-political struggles among the leading imperialist powers were the driving force behind the two world wars.

How well do these three assertions hold up a century after their first formulation? None can be accepted without any modification, but they retain a substantial measure of truth. Let us consider them in order.

1 We still live in a world of crushing global inequalities. The colonial empires long ago disappeared, but the consequence of their downfall has not been the disappearance of the vast economic gulf between what we now call North and South.[75] Formal colonialism was a feature of a world divided among a plurality of rival national–imperial blocs based primarily in the Eurasian continent. The final implosion of old Europe during the Second World War led to the emergence of a

new geopolitical division, between two superpower blocs, the global empire of the United States and the more restricted Eurasian domain of the Soviet Union. The European empires proved unsustainable in this new environment, but the liberated colonies mostly found themselves still outsiders in a world dominated by the Western capitalist bloc and the USSR. The flows of foreign direct investment since 1945 have been concentrated very largely in the OECD bloc itself, with a handful of the most advanced 'emerging market' economies fitfully included in this golden circle since the 1970s. Much of the world – for example, the bulk of sub-Saharan Africa – is subject to what Michael Mann has called 'ostracizing imperialism', deemed not even worth exploiting:

> most of the world's poorest countries are not being significantly integrated into transnational capitalism, but are 'ostracized' by a capitalism which regards them as too risky for investment and trade. It is conventional to describe this economic divide as being between 'North' and 'South', though this is too crude a division and is not strictly geographical. Much of Russia, China and the ex-Soviet Central Asian republics are classified as 'South', while Australia and New Zealand are 'North'.[76]

On the other hand, in the course of the twentieth century the accumulation process did spread, albeit highly unevenly, to the Third World. The dependency theorists of the 1960s and 1970s (for example, Andre Gunder Frank, Samir Amin, and Immanuel Wallerstein) were wrong when they argued that capitalist global domination meant only 'the development of underdevelopment' in the periphery. Varying combinations of state intervention and foreign direct investment allowed some states to become significant exporters of manufactured goods in the post-war era. But only very rarely did this process lead to entire societies joining the First World: among the chief examples of this happening are Spain, Greece, Portugal, southern Ireland,

and South Korea, all predominantly peasant societies till they began to undergo rapid industrialization in the 1960s. Much more frequently, pockets of capitalist development often highly integrated in the world economy coexist with vast pools of misery in city and countryside alike: this is the pattern in Latin America, South Asia, and China.[77] And, as South Korea discovered in the late 1990s, even the most developed 'emerging market' economies are still subject to decision-making processes dominated by the US and the other leading capitalist states: indeed, the neo-liberal programmes of structural adjustment pushed through by the IMF and the World Bank in the 1980s and 1990s specifically targeted those features of the 'emerging market' economies (for example, the relatively high levels of state intervention) that had made their industrialization possible in the first place.

2 The structure of capitalist power in the advanced economies also experienced both change and continuity. The nationally organized capitalisms that prevailed during the first half of the twentieth century have undoubtedly been cracked open as the world economy has experienced a significant process of integration. But this process is a highly uneven one: economic globalization has gone much further through the integration of financial markets than it has at the level of trade or investment. Multinational corporations, largely still based in the OECD countries, have emerged as the most powerful economic actors, but the more extreme claims that global capitalism has broken free of the nation-state are largely false. To take what appears to be the most important counter-example, the limited transfer of sovereignty to the European Union has been a vehicle of distinct and sometimes at least partially contradictory national projects, notably those of France and Germany, and has been intended to give the European powers collective leverage against the United States: this has been most successful in the area of trade, where the lobbying efforts of business interests demonstrate a lively sense of the enduring economic importance of the state.[78]

3 The single most important change in the structure of imperialism in the second half of the twentieth century was the partial dissociation of economic and military competition. Before 1945, economic and geopolitical conflict tended to be mutually reinforcing. At the beginning of the century, Britain was confronted with two challengers to both its industrial and its naval supremacy, the United States and Germany. It ended up reluctantly allying with one to defeat the other, and lost its leading role anyway. Economic and political concerns also fused in the case of the two challengers: in both world wars German imperialism sought to employ its military might to carve out a zone in Central and Eastern Europe in which it would gain privileged access to markets, resources, and labour; the US used the second war to ensure that the outcome would be an open world economy in which American capital and goods could freely flow. After 1945 the patterns of competition diverged: the Soviet Union was a geopolitical and ideological rival to the US, but not, on the whole, an economic threat. The Cold War gave Washington both the incentive and the means to unite the other major capitalist states – Western Europe and Japan – under its political and military leadership. The long post-war boom saw Germany and Japan emerge as serious economic competitors to the US, but this conflict remained relatively muted politically, in large part because of Bonn's and Tokyo's dependence on the American military shield.

The collapse of the Soviet bloc in 1989–91 brought another kaleidoscopic shift to this pattern, though one in which certain relationships persisted. Of course, what one might call superpower imperialism – the partition of the world between two geopolitical and ideological blocs – vanished. But the partial dissociation of economic and political competition remained: America's main geopolitical rivals – most obviously Russia and China – were not significant economic competitors (yet); at the same time, the chronic US balance of payments deficit helped to ensure that conflict over international trade among the 'Quad' of leading economic powers (the US, EU, Japan, and Canada) remained constant and intermittently intense. Three features of this situation are worth noting. First, as we have already seen, the US military lead over other powers grew enormously, partly because of the implosion of the other (though always much weaker) superpower, and partly as a spin-off from the sheer size and technological sophistication of the American economy. Second, successive US administrations made intense efforts to ensure both that America remained top of both the economic and geopolitical series and that no other major capitalist state developed into a political challenger: a case in point was the way in which the Clinton administration used the Balkan Wars of the 1990s to maintain the US role as the leading politico-military power on the European continent, intervening to impose a settlement in Bosnia and to expand NATO into Central and Eastern Europe.[79] Third, a projection of current trends suggests that the two series may soon meet in China. Rapid economic growth could transform what is already a regional power into a strategic challenger. Hence the ambivalence towards China of American elites, for whom the country's economic dynamism since its reintegration into the world market simultaneously confirms the superiority of market capitalism over other social systems and poses a longer-term threat.

The resulting geopolitical set-up has been well characterized by Samuel Huntington as 'a strange hybrid, a uni-multipolar system with one superpower and several major powers. The settlement of key international issues requires action by the single superpower but always with some combination of other major states; the single superpower can, however, veto action on key issues by combinations of other states.'[80] This state of affairs helps to explain some of the peculiarities of contemporary geopolitics. As theorists of global governance have rightly argued, the post-Cold War era has been marked by an unprecedentedly high level of policy coordination among the leading capitalist states, expressed in a fountain of multilateralist acronyms – UN, IMF, WTO, NATO, EU, G8, G7 – and an ideological shift away from the primacy of national sovereignty, implied, for example, by the assertion of the Western powers of a right to 'humanitarian intervention' where they see fit. This institutionalized process of policy coordination performs a triple function: it allows the US to brigade together the other major Western powers behind its initiatives; provides an arena in which disputes among the leading capitalist states can be expressed and compromises reached; and offers a means by which they can collectively impose their will on the large majority of states effectively excluded from their counsels. All in all, this amounts not to the transcendence of inter-state conflict, but its pursuit on another terrain.

The hybrid nature of the present geopolitical structure helps also to explain the tension between unilateralism and multilateralism in US foreign policy. It would be superficial to associate this with the administration of the younger Bush, even though his National Security Assistant, Condeleezza Rice, predicted that it would 'proceed from the firm ground of the national interest, not from the interests of an illusory international community'.[81] This certainly reflected a change of rhetoric compared to the Clinton administration, yet it was Clinton's Secretary of State Madeleine Albright who defended the use of cruise missiles against Iraq in February 1998 with supreme arrogance: 'If we have to use force, it is because we are America. We are the indispensable nation. We stand tall. We see farther into the future.'[82] Huntington cites the bombing of Iraq as one in a long list of unilateral actions taken by the US under Clinton. He comments: 'In acting as if this were a unipolar world, the United States is also becoming increasingly alone in the world . . . While the United States regularly denounces various countries as "rogue states", in the eyes of many countries it is becoming the rogue superpower.'[83]

The tension between unilateralism and multilateralism is a structural one. The US is dependent on other states to achieve its objectives and indeed sometimes shares common interests with them, but it is not merely the tool of 'collective capital' (as Hardt and Negri assert), since it both has distinct interests of its own and a greater capacity than other states to pursue them. This is true at the economic level, where the US must deal with other major constellations of capitalist interests such as the EU and Japan, but it is also true at the geopolitical level. The strategic position of the US is in many cases comparable to that of Britain a century ago. It is a vast continental island offshore the Eurasian landmass where the bulk of the world's productive resources are concentrated. Its main military advantage lies in naval and air supremacy, reflected in the role of the carrier battle groups on which Kennedy lavishes such praise, and sustained by a worldwide network of bases. The relatively small professional Army and Marine Corps are too valuable to risk high casualties (still in any case politically very sensitive nearly a generation after the fall of Saigon). As has been forcefully argued by Zbigniew Brzezinski (National Security Assistant in the Carter Administration), US dominance of the Eurasian landmass depends critically on building up long- and short-term coalitions and keeping potential adversaries divided and isolated.[84] But American overconfidence and the perception that the compromises required for coalition-building are too costly to US interests sometimes lead to violent unilateralist lurches on Washington's part. Thus the Pentagon chafed at the restrictions imposed by NATO's cumbersome decision-making procedures during the 1999 Balkan War.

The Bush administration's response to 9–11 illustrates all these tensions.[85] The immediate military objective of attacking and destroying the Taliban and al-Qaeda in their Afghan strongholds served two larger purposes: to eliminate an urgent physical threat to the continental US and to demonstrate to the world (including potential geopolitical challengers such as Russia and China) the high price of any attack on American power and interests. Pursuing this objective necessitated the construction of an extensive coalition – in part thanks to the imperative to gain physical access to Afghanistan through the cooperation of Pakistan, the Taliban's sponsor, and of Russia, still the dominant power in Central Asia. But the faction in the Bush administration that wanted to subordinate coalition-building to the priorities of a global war directed from Washington rapidly won out. NATO, which had invoked for the first time in its history Article 5 of the North Atlantic Treaty, declaring the attacks on the US one on all its member states, was snubbed. Offers of military help even from relatively close Western allies were unceremoniously spurned: the war in Afghanistan had to be won by *American* arms, as a reassertion of *American* power. In the course of the war, US bases spread throughout Central Asia: greater American access to a region with vast energy reserves was not, as many conspiracy theorists argued, the hidden purpose of the attack on Afghanistan, but it certainly was a substantial incidental benefit.

Most important, however, was the substantial extension of war aims expressed by George W. Bush in his State of the Union address on 29 January 2002. Reaffirming that 'our war on terror is just beginning', Bush announced that, in addition to directly attacking terrorist networks, '[o]ur second goal is to prevent regimes that sponsor terror from threatening America or our friends and allies with weapons of mass destruction', and named Iran, Iraq, and North Korea as 'an axis of evil'.[86] Under-Secretary of State John Bolton subsequently extended the net, identifying Libya, Syria, and Cuba as 'state sponsors of terrorism that are pursuing or who have the potential to pursue weapons of mass destruction'.[87] This developing 'Bush Doctrine' conjured up the prospect of a permanent state of global war. According to Nicholas Lemann, 'all the indications are that Bush is going to use September 11th as the occasion to launch a new, aggressive American foreign policy that would represent a broad change in direction rather than a specific war on terrorism.' He traced this policy's origins to a strategy document authorized by Vice-President Dick Cheney when he was the elder Bush's Defense Secretary in the early 1990s, the nub of which was summed up by one of Cheney's advisers thus: 'it is a vital US interest to be willing to use force if necessary' in order to 'preclude the rise of another global rival for the indefinite future'.[88]

In other words, the leading forces inside the Bush administration have seized the opportunity provided by 11 September to use their enormous military advantage to consolidate America's position as the dominant global power. Military action will be taken probably against Iraq and possibly against other countries deemed to be 'rogue states', more because of their recalcitrance than in punishment of their violations of human rights or international law (other states closely aligned to Washington such as Israel and Pakistan are allowed to commit comparable crimes with impunity). Making an example of a few outlaws would send a signal to all the other powers. Meanwhile, US forces spread across the globe. The *Guardian* reported in early 2002:

> Today, almost six months after the attacks on New York and Washington, the US is putting in place a network of forward bases stretching from the Middle East across the entire length of Asia, from the Red Sea to the Pacific.
>
> US forces are active in the biggest array of countries since the Second World War. Troops, sailors and airmen are now established in countries where they have never before had a presence. The aim is to provide platforms from which to launch attacks on any group perceived by George Bush to be a danger to the US.[89]

The truly fearful implications of the Bush administration's strategic planning were revealed when details of its

Nuclear Posture Review were leaked soon after the 'axis of evil' speech. This document listed Russia, China, North Korea, Iraq, Iran, Syria, and Libya as potential nuclear adversaries, and proposed the integration of nuclear and conventional capabilities – for example, the addition of nuclear warheads to 'bunker buster' weapons intended to kill enemy leaders such as Saddam Hussein.[90] Such Strangelovian plans are not merely an eccentricity of the current administration. In February 1997 US Space Command announced its objective of 'Full Spectrum Dominance' – i.e. American military superiority on land, sea, air, and space, explaining: 'Although unlikely to be challenged by a global peer competitor, the United States will continue to be challenged regionally. The globalization of the world economy will also continue, with a widening between "haves" and "have-nots".' The document proceeds to outline the respects in which 'space superiority is emerging as an essential element of battlefield success and future warfare'.[91]

This rather naïve juxtaposition of high-tech warfare and socio-economic trends reveals something fundamental about the contemporary world. The response of the Bush administration to 11 September – to declare a permanent state of war implicitly directed against potential as well as actual adversaries – indicates the anxieties at work even at the top of the greatest power in history. The US is at once general guardian of the capitalist system and a fierce participant in global economic and geopolitical competition. Its rulers feel threatened by petty recalcitrants such as Iraq that to some degree function as metonyms for much more serious potential challengers such as China. They also fear the 'have-nots' whose numbers are being swelled by neoliberal policies. These anxieties reflect the logic of capital, a system that, as I have tried to show, is based on exploitation and driven by a blind process of competitive accumulation. Now we see that this process embraces the geopolitical rivalries among states, and that the assertion of military power also is caught up in the same logic.

Capitalism thus is also imperialism: it comes armed to the teeth against external rivals and domestic rivals. Its armoury is growing – indeed the probability that the US or some other power will use nuclear weapons in the next few years has increased.[92] Extending our analysis to include the state system is therefore hardly reassuring. The world is becoming a more frightening place, and the source of this, as of other problems, is capitalism. Perhaps in the comparatively short geopolitical term as well as the longer ecological term, it threatens the planet. What do we do about it?

Summary

- Neo-liberalism has failed even to restore the rates of economic growth that the world enjoyed during the Long Boom of the 1950s and 1960s, let alone to reduce poverty and inequality;
- Although financial markets provide the most visible evidence of the irrationality and inhumanity of liberal capitalism, they are more a symptom than the fundamental source of the problem;
- Capitalism is best understood along the lines pioneered by Marx, as a system based on the exploitation of wage-labour and driven by the competitive accumulation of capital;
- The process of competitive accumulation is responsible for capitalism's chronic tendency towards crises of over-investment and profitability: financial speculation feeds this tendency but is not its primary cause;
- The competitive struggle among the multinational corporations that dominate the contemporary world economy is also the main driving force behind the processes of environmental destruction that threaten the life of humankind along with that of many other species;

- Capitalist competition takes the form not merely of economic rivalries between firms but also of geopolitical conflicts among states: the current efforts of American imperialism to assert its primacy over the other Great Powers threatens the world with a new era of wars, with incalculable consequences;
- The major problems facing humankind – poverty, social injustice, economic instability, environmental destruction, and war – have the same source, in the capitalist system: the solution to these problems must, accordingly, be a radical one.