CHAPTER 2

The Vulnerability of the American Empire-State

Abstract This chapter deals with the rise of financialised capitalism in the West and its crisis in a historical perspective. It counters arguments that downplay financialisation as a component of neo-liberal policy-making, assessing neo-liberal globalisation as a virtuous cycle of capitalist growth, centred around the robustness of US capitalism and the capacity of the American state to integrate under its aegis other socio-economic formations: in this view, the American state is “the author of neo-liberal globalisation”, integrating China in its very system, the making of global capitalism having the colours of the American empire-state. This chapter shows that this is not the case. Further, China’s integration into the structures of global political economy from the 1980s onwards brought more benefits to China than to transatlantic economies.

Keywords Stagflation · Imperialism · China · USA · Neo-liberalism

“Whenever we try to predict or shape the future”, wrote Lal Jayawardena, “it is invariably in the image of our understanding of the past”.¹ The “rise

¹ Lal Jayawardena, “Preface”, in Stephen A. Marglin and Juliet Schor (eds) (1991), The Golden Age of Capitalism. Reinterpreting the Post-war Experience (Oxford: Clarendon Press), p. v.
and fall” of the Bretton Woods order, as well as the responses to it by the USA, inform our grounding of China in today’s global capitalism.

**Neo-liberal financial statecraft** marks a historical phase of capitalist modernity that pertains to a double transformation: first, it aims at transforming the internal environment of the state via the public policy of neo-liberalism, for Anglo-Saxon states, and ordoliberalism for EEC/EC/EU/Eurozone states; second, it transforms the external environment of it via the liberalisation of the exchange rate mechanism, the opening-up of money/financial markets and the transnationalisation/globalisation of the corporation. Both transformations are feeding each other.

In this new dialectic of national/international, the transformation of the global multinational corporation (American, Japanese, European) is very important. A key feature of the new global corporation is that it takes advantage of technological innovation, relinquishes the Fordist model of mass production for mass consumption and, in its search to discover cheap labour markets and favourable taxation regimes, creates polygonal supply chains and networks of production, assemblage, circulation and consumption across the entire globe. Joint transnational ventures and mergers and acquisitions become the new norm. The aim is the augmentation of profitability by way of making up the losses incurred under the previous Keynesian/Fordist regime of fixed exchange rates and solid industrial economic growth—what came to be called the “Golden Age of Capitalism” (1950–1960).² Returns and assets, however, tend to be increasingly financialised—and often dollarized—as the dollar was freed of its gold fetter investors realised that speculation on paper assets denominated in dollars was more profitable than employing unionised workers handing out full-time contracts and high (Fordist) wages.³

It should be noted, that neo-liberal financial statecraft was and remains a project structured, primarily, along the reproductive expansionary needs

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²Apart from the aforementioned edited volume by Marglin and Schor, see also, Eric Hobsbawm (1994), *The Age of Extremes: The Short Twentieth Century, 1914–1991* (London: Abacus).

³In this respect, we consider the contribution of the monthly journal, *Monthly Review*, and its authors as very important. See, among others, John Bellamy Fosters and Fred Magdoff (2009), *The Great Financial Crisis: Causes and Consequences* (New York: Monthly Review Press).
of the American empire-state and comes as a response to the overaccumulation crisis of the 1970s (the *stagflation*—economic stagnation accompanied by high inflation). This crisis, unlike the Great Recession, manifested itself in the real economic sector, especially in industry. As we have shown elsewhere, the overaccumulation crisis of the 1970s was caused by multiple factors—strong social and trade union movements, the erosion of America’s gold reserves, the Vietnam war etc.—was captured, to a great degree, by debates and arguments developed, among others, by Giovanni Arrighi, Alex Callinicos, Leo Panitch, David Harvey, Robert Brenner, the French “regulation school” and the *Monthly Review* group. Nevertheless, what seems to us as the most prominent factor is the structural force of uneven (and combined) development in the core capitalisms of Europe, Japan and the USA. This form of competitive constraint in the 1970s drove down the (average) rate of profit over a period of years, forcing industrialists to inflate the economy, seek state support and, eventually, to financialise as the decline in profitability was sustained and persistent (Table 2.1). Importantly, at the time, the markets of the global South were relatively closed due to anti-colonial struggles, import substituting policies (Brazil, Argentina) and the rise of Baathist socialism in the Middle East (Egypt, Syria, Iraq). Similarly, the Soviet bloc and China could not offer free markets to the West to support its recovery from its overaccumulation crisis. Uneven (and combined) development had also generated a balance of payments crisis for the USA from the early 1960s onwards, not least because other members of the core, such as France, began exchanging their surplus dollars for US gold reserves, as gold remained a tradeable commodity. This, brought the Bretton Woods system to its knees, forcing the Nixon administration to get rid of the gold fetter and devalue the US dollar, placing essentially the entire global political economy on a pure dollar standard, especially after the US-Saudi

4 See Vassilis K. Fouskas and Bülent Gökay (2012), *The Fall of the US Empire: Global Fault-Lines and the Shifting Imperial Order* (London: Pluto Press), where we present a summary of these debates reviewing key works written by those authors. For a recent contribution to this discussion, see Richard Lachmann (2020), *First-Class Passengers on a Sinking Ship: Elite Politics and the Decline of Great Powers* (London: Verso).

5 For a very interesting reading about the global political economy of the Cold War, see Oscar Sanchez-Sibony (2014), *Red Globalisation: The Political Economy of the Soviet Cold War from Stalin to Khushchev* (Cambridge: C.U.P.).
Table 2.1 Percentages of profit rates, 1960–1973

| Business  | ACC* | USA  | Europe | Japan |
|-----------|------|------|--------|-------|
| Peak year** | 17.2(¥) | 22.3(†) | 16.3(©) | 32.0(®) |
| 1973      | 13.6  | 14.8  | 11.3   | 19.6  |
| 1973/peak year | 0.79  | 0.66  | 0.69   | 0.61  |
| Manufacturing | 23.6(¥) | 34.9(†) | 19.9(©) | 46.5(®) |
| 1973      | 19.3  | 22.5  | 12.1   | 33.5  |
| 1973/peak year | 0.82  | 0.64  | 0.61   | 0.72  |

Notes
*The seven most industrialised countries at the time (USA, Canada, UK, France, Germany, Italy and Japan)
**Year before sustained decline in profitability
¥ Year 1968
† Year 1966
© Year 1960
® Year 1970

Source Own elaboration of data from Armstrong, Glyn and Harrison (1984), Capitalism since World War II: The Making and Break-Up of the Great Boom (London: Fontana), p. 257

agreement of 1973–1974, which stipulated that oil should be traded in dollars only.6

Thus, neo-liberal financial statecraft is essentially a project driven by the American state in its hub-and-spoke hierarchical agreement/partnership with other subordinate political economies of the global core and the global periphery. The interest rate hike engineered by the head of the American Fed, Paul Volcker, causing havoc in the debt markets of Latin America and (communist) Eastern Europe, should be seen as representing the culmination of the first period of the statecraft (1971–1990). Moreover, the relentless drive to open up East European markets to American and European capital, a process explained by Peter Gowan, stems precisely from the need of the saturated capital of the core to expand globally, overcoming their overaccumulation crisis at home.7

6 We analyse the importance of this agreement in Fouskas and Göokay, The New American Imperialism, ch.1.

7 See, Peter Gowan, The Global Gamble, op. cit., pp. 187–248, and his various contributions to New Left Review and Labour Focus on Eastern Europe.
Having said this, the “big success” came during the second period of financial statecraft (1990–2007), which ended up in the Great Recession of 2007–2008. This period embraced mortgage markets (housing) and massive involvement of the shadow banking sector, creating unsustainable levels of debt. Further, the project, having as key operational offshore hubs the Wall Street and the City of London, was assisted by the opening-up of East European markets in the wake of the collapse of “really-existing socialism”. Moreover, as the “Volcker shock” came to an end signalling the end of the first period of the statecraft (1971–1990), the American Fed ushered in an era of low interest rates, which drove up the price of stocks and bonds. These were “owned exclusively”, as Robert Brenner put it, “by the very rich”. The creation of this new cross border financial oligarchy in the transatlantic area headed by US financial capital and extended with myriad of tentacles via the global proliferation of banking, accounting, insurance and other financial services, severely side-lined the power of industrial capital and the real economic sector of the core. With the partial exceptions of Germany and Japan, the manufacturing base of the core since the 1980s has been shrinking. Today’s manufacturing base of Britain and the USA stand at 8.8 and 11.1% of their respective GDP (but it is 21% in Germany and 20.8% in Japan). No accident, the western economies as a whole have since the 1970s entered a period of “long downturn”, that is a period of slow and protracted decline of their real economic sector, which could not be matched by periods of financial euphoria, such as that of 1991–2007—the second period of financial statecraft that corresponds to low interest rates. When credit was cheap, hence accessible, demand was financed by increased borrowing, creating unsustainable levels of consumer (and other) debt. Further, the financial oligarchy packaged, rated, priced and sold this and other forms of debt and paper assets across the globe—such as that resulting from retained profits—in a delirium of grotesque profiteering and speculation creating an unsustainable financialisation chain. Most part of this fictitious capital had not trickled down to the real economic

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8 Robert Brenner, “Editorial: Introducing Catalyst”, Catalyst, v.1, n.1, Spring 2017.

9 For the rise of consumer debt in the UK in a comparative perspective, see Seun Alele (2020), Financialisation and the Rise of Consumer Debt in the UK, 1971–2008, PhD dissertation, University of East London.

10 The literature among heterodox and Marxist economists, as well as sociologists, on the topic of financialisation is vast. We would like, however, to single out the work of
sector as investments in production and infrastructure, especially since the global (western) corporation was migrating to the “global East and South” (China, India, Brazil, South Africa, Turkey and elsewhere). All forms of debt increased exponentially during the second period of neo-liberal financial statecraft and much of the “growth” recorded, especially during the Clinton years (1990s), was debt-driven.

There are arguments that downplay financialisation as a component of neo-liberal policy-making, assessing all the above as a virtuous cycle of capitalist growth, centred around the robustness of US capitalism and the capacity of the American state to integrate under its aegis other socio-economic formations: in this view, the American state is “the author of neo-liberal globalisation”, integrating China in its very system, the making of global capitalism having the colours of the American empire-state. Effectively, financialisation is dealt with as part and parcel of the total circuit of productive capital and not as speculative process relatively dissociated from real commodity production. We counter that the two phases of the US-led financial statecraft did not remotely match the levels of economic development of the Golden Age of Capitalism. As Richard Lachmann recently put it:

[US] growth was much faster and shared far more equitably before 1974 than after. Similarly, Western European GDP enjoyed annual average compound growth rates of 4.08 per cent for 1950-73 but only 1.78 percent for 1973-98. The comparable figures for Japan are 8.05 percent and 1.33 percent. Bretton Woods was successful at limiting if not blocking

Costas Lapavitsas on the issue of financialised capitalism. Essentially, he outlined financialisation of core capitalisms alongside three characteristics: financialisation of financial enterprises; financialisation of non-financial enterprises; and financialisation of everyday life, especially speculation on the housing market. See especially his Profiting Without Producing: How Finance Exploits Us All (2013) (London: Verso). In the periphery, Lapavitsas argues, financialisation assumes a “subordinate form”; see also the review of this work by Vassilis K. Fouskas (2015), The Political Quarterly, v.86, n.1, January–March 2015.

11 The key work here is that by Leo Panitch and Sam Gindin (2012), The Making of Global Capitalism: The Political Economy of American Empire (London: Verso). Ray Kiely and other scholars around the Socialist Register have espoused similar positions.

12 “This is a false dichotomy”, Leo Panitch, Greg Albo and Sam Gindin warn. “Money Capital, Bank Capital, Credit and Speculative Capital Are All Necessary Moments in the Circuits of Capitalist Production and Exchange”, in Greg Albo, Sam Gindin and Leo Panitch (2010), In and Out of Crisis (Oakland: PM Press), p. 33.
capital flows and modulating changes in exchange rates, preventing the banking crises that emerged after 1970 with unrestrained speculation in currencies and the enormous growth in “hot money”. Worldwide, there were at least 124 financial crises from 1970 to 2007.\(^\text{13}\)

We also argue that China has never been part of America’s hub-and-spoke system of neo-imperial governance, nor can it become so now that this system is in tatters; if anything, the Chinese state took advantage of America’s expansion in order to advance its own developmental goals at home and abroad. Debt is a form of capital, but it is fictitious capital. Thus, it is not a “superstructure” of the real process of capital accumulation and development and it should not be confused as such. As Marx put it, “in the way that even an accumulation of debts can appear an accumulation of capital, we see the distortion involved in the credit system reach its culmination”.\(^\text{14}\) Thus, we argue that neo-liberal financial statecraft and the unsustainable levels of debt incurred in its second phase of evolution (1991 onwards) represent a major vulnerability of American capitalism and of the transatlantic core it leads geo-politically. As many Marxists and non-Marxist commentators have remarked from the very early days, this decline, has been long and protracted, dating back to the 1960s.\(^\text{15}\)

\(^{13}\) Lachmann (2020), op. cit., p. 359.

\(^{14}\) Karl Marx (1894/1991) in Chapter 30 of volume III of *Capital* (London: Penguin), pp. 607–608.

\(^{15}\) Prominent proponents of the “USA decline thesis” since the late 1960s and 1970s have been such political economists, among many others, as Ernest Mandel and Robert Gilpin. See, for instance, Ernest Mandel (1969), “Where Is America Going?”, *New Left Review*, v.54, March–April, as well as subsequent work; Robert Gilpin (1987), *The Political Economy of International Relations* (Princeton: P.U.P.). Note that Nicos Poulantzas in the 1970s opposed Mandel and the “USA decline thesis” (Panitch still uses Poulantzas’ insights approvingly in his work). For further discussion, see Fouskas and Gökay (2012) and Fouskas and Dimoulas (2013), *Greece, Financialisation and the EU: The Political Economy of Debt and Destruction* (London and New York: Palgrave Macmillan). In general, if we want to have an intellectual yardstick grouping authors and currents of thought, the following might be a “rule of thumb”: The “USA supremacy thesis” is supported by Marxists, such as Leo Panitch, Sam Gindin, Ray Kiely and most authors writing for the *Socialist Register*; and authors of the Right, such as those writing for the RAND corporation and various IR realist experts, such as Stephen Brooks and William Wohlforth (2008) in their *World out of Balance: International Relations and the Challenge of American Primacy* (Princeton: P.U.P.)—but not John Mearsheimer (an offensive realist), or Christopher Layne (a neo-classical realist), who accept the rise of China and the protracted decline of the USA. Further, the “USA decline thesis” is supported by
Furthermore, because of the inappropriate measures taken by the polities of the core to address the underlying causes of the Great Recession of 2007–2008, the debt situation got worse.

The augmentation of debt, both public and private, as a percentage of GDP increased exponentially since the 1990s. Further, a key feature of the “stabilisation” packages in the wake of the collapse of the Lehman Brothers in September 2008 was their half-baked Keynesianism (some call it “new consensus macroeconomics), i.e. monetary bail-outs for large global and national corporations in the financial and banking sectors, while dropping the interest rates to near-zero and allowing a timid industrial policy, often via trade protectionism.16 Thus, enterprises continued their profiteering and speculative activities by financialising their profits, instead of investing them into material production, the result being further drops in industrial output and a piling up of debt, including consumer debt. Since 2008, the debt increased exponentially in every single economic sector (government, household, non-financial corporate, financial corporate). In 2019, global debt was over $260 trillion or 325% of global GDP. By comparison, in 2012 the figure was $207 trillion or 300% of global GDP.17 If we look at government debt, then matters are more revealing. The USA tops the list holding the world’s 31% of government debt, or 104.3% of its GDP, i.e. $21,465 bn. It is followed by Japan (17%) and China (9.8%), but these two countries’ government debt, especially China’s, is largely due to financing of its state-owned enterprises (see

most “world systems theorists”, such as Immanuel Wallerstein, Christopher Chase-Dunn and Giovanni Arrighi, the *Monthly Review* journal, Alex Callinicos and David Harvey; and the French “regulation school” (Michel Aglietta Gerald Dumenil et al.). They all have a leftist/Marxisant orientation as does Andre Gunder Frank in his last macro-historical-sociological statement of 1998, *ReOrient. Global Economy in the Asian Age* (Berkeley: University of California Press); on the liberal-democratic-realist front, authors such as John Mearsheimer, Charles Kupchan, Stephen Walt and Joseph Nye, among others, accept, in one way or another, that America’s economy has been declining for some time now, seeing China as the most probable successor to American primacy.

16 For a post-Keynesian critique, see Philip Arestis, “New Consensus Macroeconomics: A Critical Appraisal”, Working Paper No. 564, The Levy Institute of Bard College and University of Cambridge, May 2009; for a Marxist critique, see Stavros Mauroudeas, “Economic Crisis and the Crisis of Economics”, in https://stavrosmaurodeas.wordpress.com/tag/new-macroeconomic-consensus/ (accessed 15 February 2020).

17 See Emre Tiftik and Khadija Mahmood, “High and Rising Debt Levels: Should We Worry?”, Institute of International Finance, https://www.iif.com/Portals/0/Files/content/GDM_July2019_vr3.pdf (accessed 21 February 2020).
Covid-19 will increase debt at astonishing levels in 2020: the IMF has estimated that across the “advanced” countries, gross government debt will rise to $66 trillion, or 122% of GDP, an increase of 17%, and with the USA running a deficit of 15%. Overall, contrary to what had been the case in the 1970s and 1980s when the debt was primarily an affair of the “global South”, the world’s debt today is mostly held by the “advanced” economies (75.4%).

If lower—and, indeed, near-zero since 2009—interest rates do not bring about lower debt levels relative to GDP, it means that investors benefitting from this favourable economic climate direct their profits to speculative profiteering rather than material production and job creation. Effectively, it means that responsible for the large government debt in the “advanced” economies are the low levels of industrial production, the high concentration of economic activity in services and consumption, hence the disabling of the production of real use and exchange values. Growth becomes driven by bubbles generated in banking and financial services. Characteristically, the city-state of Singapore, an offshore financial services economy par excellence and the largest logistics centre in the world, has accumulated large amounts of government debt (see Table 2.2). In addition, much of the debt accumulated in advanced economies, especially non-financial corporate debt, are not highly rated by credit-rating agencies. Furthermore, “gig” and precarious work have since the 1980s proliferated. The breakdown of the Fordist/Keynesian consensus brought about not just a proliferation of part-time and flexible work, but also, especially after the Great Recession, a deepening of the process of exploitation and formal/informal subsumption of labour to capital via “gig” work and zero-hour contracts. In Anglo-American neoliberal contexts, the welfare state was further retrenched and large services of it, especially in the UK, have been privatised. In ordoliberal Eurozone, the situation took on an unprecedented turn.

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18 See “After the Disease, the Debt”, *The Economist*, 25 April–1 May 2020, p. 15.

19 See, Mike Roberts in *Brave New Europe*, https://braveneweurope.com/michael-roberts-it-was-the-virus-that-did-it (accessed 1 July 2020).
Table 2.2  Government debt

| Rank | Country   | Debt to GDP (%) | Gross debt ($bn) | % of world total |
|------|-----------|-----------------|------------------|------------------|
| 1    | USA       | 104.3           | 21,465           | 31.0             |
| 2    | Japan     | 237.1           | 11,788           | 17.0             |
| 3    | China     | 50.6            | 6764             | 9.8              |
| 4    | Italy     | 132.2           | 2744             | 4.0              |
| 5    | France    | 98.4            | 2736             | 3.9              |
| 6    | UK        | 86.8            | 2455             | 3.5              |
| 7    | Germany   | 61.7            | 2438             | 3.5              |
| 8    | India     | 68.1            | 1851             | 2.7              |
| 9    | Brazil    | 87.9            | 1642             | 2.4              |
| 10   | Canada    | 89.9            | 1540             | 2.2              |
| 11   | Spain     | 97.1            | 1386             | 2.0              |
| 12   | Mexico    | 53.6            | 655              | 0.9              |
| 13   | South Korea | 37.9          | 652              | 0.9              |
| 14   | Australia | 41.4            | 588              | 0.8              |
| 15   | Belgium   | 102.0           | 543              | 0.8              |
| 16   | Holland   | 52.4            | 479              | 0.7              |
| 17   | Argentina | 86.1            | 447              | 0.6              |
| 18   | Singapore | 113.6           | 414              | 0.6              |
| 19   | Greece    | 184.9           | 404              | 0.6              |
| 20   | Austria   | 73.8            | 337              | 0.5              |

Source Own elaboration of data from IMF (2019), https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/OEMDC/ADVEC/WEOWORLD