Imperialisms:
A Critique of International Relations and International Political Economy

By

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Abstract

Theories of empire and imperialism have a long history in both the International Relations (IR) and International Political Economy (IPE) literature. Yet both literatures have significant theoretical and methodological problems. IR scholars assume the American empire has a progressive role in the global system, promoting peace, security and prosperity. They divorce the ideals of America from its history of violence and exploitation. Alternatively, the IPE literature recognizes that capitalism is a driving force behind imperialism, but tends to ignore other determinants of American foreign policy. This dissertation aims to use an interpretation of Karl Marx’s method of historical materialism to reconceptualize imperialism in the 20th and early 21st century. Building upon theories offered in the IPE literature, it argues there are three interrelated types of imperialisms at work: geopolitical, geocapital and capital imperialism. Geopolitical imperialism is when geopolitics is the main determinant behind foreign policy. This process is driven by international security concerns or domestic politics and often has few direct economic motivations. Geocapital imperialism is when the needs of capital accumulation coincide with the policies of the government. The third type is “capital imperialism.” This process conditions countries and institutions through transnational corporations and international finance, such as bond markets, the repo markets, currency speculation and investment flows. The recent financialization of the international system has made this process of imperialism a much more rapid and disruptive international process. This thesis will place an emphasis on relations, context and history in order to provide a thorough understanding of the forces of imperialism with a particular focus on the presidencies of George W. Bush and Barack Obama.
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Every single empire in its official discourse has said it is not like all the others, that its circumstances are special, that it has a mission to enlighten, civilize, bring order and democracy, and that it uses force only as a last resort. And, sadder still, there is always a chorus of willing intellectuals to say calming words about benign or altruistic empires, as if one shouldn’t trust the evidence of one’s eyes watching the destruction and the misery and death brought about by the latest mission civilizatrice. – Edward Said.

Chapter 1:

Introduction

Since the end of the Second World War, the United States has been the dominant capitalist country in the international system. It has been central to the expansion of capitalism into new markets and into new territories. While America has relied upon incentives, it also has at its disposal the most advanced military in the world to ensure the stability of the capitalist system. During the financial crisis of 2008, the United States was the source of crises, with the financial contagion spreading to the rest of the global economy. Since then, this superpower has been mired in poor economic growth with its political system seemingly unable to contend with these new problems. The relatively minor crisis in the American housing market has had far-reaching and dire ramifications in seeming unrelated parts of the world. The problems quickly spread to the Eurozone, which could soon be on the verge of collapse due to a series of sovereign debt crises. Even in East Asia, China has taken measures to ensure the continuity of its regime and the country’s continued economic growth. The recession has highlighted that capitalism is a global system that interconnects disparate countries and peoples. And yet after all these difficulties with massive unemployment and an increase in poverty, capitalism continues and

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expands unabated by meaningful political or social resistance. The costs of the crisis are borne by some of the poorest people, while investors and corporations receive tax cuts and government bailouts. Even the United States, the supposed empire and central network of the economy, seems powerless against the forces of global capitalism.

The purpose of this dissertation will be to uncover the economic, social, and political processes of imperialism that led to the financial crisis and continue to condition governments and people in America and throughout the world. This dissertation aims to develop an approach that relies extensively on Karl Marx’s method of Dialectical Historical Materialism (DHM) in order to present a superior examination of imperialism than is offered in either the International Relations (IR) or International Political Economy (IPE) literature. Too often approaches in the IR literature ignore capitalism as a global system that links together seemingly disconnected states and peoples. While at the same time, the IPE literature assumes that capitalism is the main cause behind the policies of the United States, rather than one of many determinants of American imperialism. The approach I will use recognizes that capitalism and imperialism are systemic and totalizing, but that they must be discussed in their historical context to be appropriately understood. The reason for rethinking this topic is of the utmost importance for political studies: if contemporary theories misrepresent empire or imperialism, then its problems will be ignored. It is even more pertinent at this time when capitalism is in crisis and the developed world is mired in recession. A theory that presents an alternative understanding of imperialism with its relationship to capitalism and the American state can lead to new methods and locations to challenge its expansion and exploitation.

The use of the terms “empire” and “imperialism”, in both mainstream International Relations and in the International Political Economy literature, have become more
commonplace. Scholars in mainstream IR often argue the American empire promotes international stability, free markets, and political liberalism; it is often viewed as benevolent, progressive and necessary in global politics. Mainstream scholars in IR cheer the promise of empire while downplaying or ignoring its failures and history of military force. Other scholars in IPE argue imperialism spreads conflict and violence, with America using military might to invade countries and expand markets. IPE often integrates production and the capitalist system in their analysis, but shares a number of assumptions with IR, emphasizing the actions of the United States government as the main agent that spreads capitalism.

I argue that both literatures have significant empirical and theoretical weaknesses whose origins are to be found in their failure to deal with a series of methodological, epistemological, and ontological problems. The IR literature focuses on the policies of the United States government and on liberty and economic freedom. Due to the influence of liberalism and positivism on the field, it abstracts the ideals of the United States from it history of violence, exploitation and expansionism. It ignores the capitalist system as a driving motivator for American imperialism. While the IPE literature does make a contribution in understanding the relationship between capitalism and the United States, it tends to argue US foreign policy is solely motivated by capitalist interests. Indeed, America has a major role in spreading capitalism, but overemphasizing its place in the system downplays the multifaceted ways capitalism reproduces itself through other institutions, as well as other motivations for US foreign policy.

The focus of this thesis will be a rethinking of imperialism using DHM as a methodological

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guide. It will be the purpose of this thesis to reconceptualize imperialism in the 20th and early 21st century, with specific focus on the presidencies of George W. Bush and Barack Obama. In doing so, I will both critique and utilize concepts from the IPE and IR literature in order to offer a contemporary account of imperialism.

The first chapter of the thesis will be a critical evaluation of mainstream IR. I will show there is a broad epistemological, methodological and ontological consensus in mainstream American IR. The American economic and political establishment has co-opted the study of mainstream IR in the US academy. Regardless of their supposed theoretical differences, these scholars often cheer the role of America in global politics. Mainstream scholars who laud the United States as an empire draw attention to its promise and ideals, while downplaying or ignoring its failures. Many of these scholars argue that the United States’ foreign policy is led by a higher purpose, whether it be to spread liberty, free markets or democracy, while ignoring how this is inextricably linked to economic exploitation and, at times, violence through the use of the military. My main goal of this chapter is to uncover the role the intelligentsia in the United States plays in justifying America’s foreign policy. The major contribution from American academics in IR is to either formulate policy, or to serve as ideological justification for US foreign policy. Washington undermines the role of academics as a group that could be critical of American imperialism, and it perpetuates the current economic and political order.

The second chapter will introduce in greater detail the method I will use to reconstruct imperialism. I will critique the methodology of mainstream political science and its understanding of imperialism. Then the methodological assumptions of DHM will be outlined. I will start with a discussion of dialectics – how it changes the way of thinking about ontology with its understanding of interrelationality rather than cause/effect. Dialectical thinking makes
several key assumptions about the nature of reality. First, Marx argues that reality is made up of *relations* rather than *things*.\(^5\) Concepts and individuals cannot be abstracted and examined apart from their context, but must be understood as how they relate in their social environment. As Marx states in *The Grundrisse*, “Society does not consist of individuals, but expresses the sum of interrelations, the relations within which these individuals stand”.\(^6\)

Second, a dialectical approach recognizes generalized concepts cannot be appropriately understood outside of their history and society – everything is internally related to everything else, making this study historical, contextual, and at the system level. Third, relations are produced in their social context. Every society must reproduce itself using labour and the means of production- the specificities of production vary from one generation to another and from one era to another. This places an analytic emphasis for a contemporary study on the capitalist mode of production as an integral part of social reproduction. Dialectical thinking recognizes the inevitability of contradiction and change in a social system arising from the complexity and conflict of these relations. From there, I will discuss materialism, how the system of production serves not only as an important methodological starting-point for a discussion of imperialism, but is vital in understanding the response of the United States to the financial crisis, and the nature of the international financial system. This method will then be used to guide the reader through a reconstruction of imperialism, and while it is impossible to add in all the determinants, I will use the method to help understand build as comprehensive and insightful reconstruction of imperialism as possible.

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The third chapter will offer an assessment of the major contemporary theories of empire in the IPE literature using DHM. Scholars in the IPE tradition have presented numerous theories of empire that are broadly influenced by the Marxist tradition. My goal will not be merely to present an inter-paradigmatic critique but also an intra-paradigmatic criticism of IPE theories of empire. Since theories of empire are at least partially influenced by the works of Marx, it is also necessary to provide a critical assessment of several major recent critical theories of empire. I will focus on the contributions of Leo Panitch and Sam Gindin, Michael Hardt and Antonio Negri, David Harvey, Peter Gowan and Giovanni Arrighi, each of which provides insight into the contemporary processes of imperialism. As I am more interested in the context of the late 20th and early 21st century, the theories of imperialism that will be discussed in detail will be contemporary rather than historical theories— they speak more to current problems and challenges in global politics. This chapter will discuss what contemporary theories of imperialism do well, even using some concepts in my own analysis, as well as providing a critique of the shortcomings by using DHM as a guide.

The fourth chapter will change pace and build upon the three previous chapters by reconstructing imperialism according to the method of DHM. A requirement of DHM is to properly contextualize imperialism within its history and culture. I will examine the historical roots of imperialism and provide an account of America’s history of liberalism, its government structure and the origins of its imperial ascent. I will also discuss how its foreign policy has been motivated by both geopolitical threats and the interests of corporations and financial institutions. With the rise of neoliberalism in the 1970s, financial markets and corporations emerged as a major transnational force in the international system that overcame the boundaries and regulatory limitations of most nation-states. Most of the time, the relationship between the US government
and global finance has been cooperative. In the 1980s and 1990s, the American government often yielded to the demands of finance capital by providing bailouts to prevent a broader systemic crisis in capitalism. In this chapter, it is my goal to be as expansive and detailed as possible while avoiding the tendency to be mired in unnecessary historical minutiae. This will of course be a delicate balance, but my focus will be on contextualizing the processes of imperialism in the American context.

This chapter will discuss three intertwined stories of imperialism, examining the development of corporations, global finance, and the American state. I will assess the problems in international capitalism that started just prior to the Great Depression, as well as the major reorganization of the international system that occurred after the Second World War. Then, I will evaluate the major economic and geopolitical conflicts of the Cold War, including the Korean and Vietnam wars. From there I will lay out the origins of the decline of the Bretton Woods system of capital control and the rise of the neoliberalism in the 1980s. This will be followed by a discussion of the opening of the Chinese economy, and the collapse of the Soviet Union. By the 1990s, America was the lone superpower and neoliberal capitalism was popularized as the only path to economic prosperity. At the turn of the millennium, it appeared there was no alternative to American-style capitalism.

Chapter 5 will continue the discussion of imperialism by assessing the American reaction to the terrorist attacks of September 11th, 2001, the resulting wars in Iraq and Afghanistan, and the after effects of the 2008 financial crisis. There were tensions between the American state, corporations, and financial markets due to the war in Iraq and the financial crisis. The subsequent Great Recession of the late 2000s was experienced differently in the US, the EU and China due to the unevenness of the global capitalist system. Thus I will examine America’s role in the
crisis, as well as the Sovereign Debt Crisis in Europe, and the economic rise of China. This chapter will evaluate the period under the administration of President Barack Obama. Initially, Obama brought the promise of substantial change in the United States from the previous administration of George W. Bush. Yet very little has changed. Obama has not substantially regulated finance capital—if it is even possible for a single state to do so—nor has he radically altered US military policy in the Middle East and other regions. Global finance has shown throughout the global economy that it has the ability to condition the response of countries, punishing those that act contrary to the demands of investors. While it is too soon to see the long-term economic ramifications of the recession on the United States, this crisis does show that America is under many constraints and suffers limitations due to the capitalism. To summarize, capitalists seek profit regardless of its location or its human costs. America can benefit from the development international capitalism, particularly in the financialization of the system, but it can also be punished by financial markets. The process of capitalist imperialism—the globalization and deregulation of corporations and financial markets—is a dominant force in the global economy, at times coming into conflict with the most powerful country in the world.

There are several overall goals for this thesis. First, my work will continue to build upon theories of imperialism in IR and IPE, though this project may have more in common with the latter group of scholars. I will use Marx’s methodology to critique critical theory’s methods and concepts, while appropriating some of their ideas. Secondly, it is my goal to construct an updated theory of imperialism for both academics and activists. Imperialism deals with some of the key institutions of economic and political power. My focus will be on reconceptualizing the processes of imperialism rather than an in-depth assessment of where it can be challenged—properly interpreting imperialism in the world today is a necessary first step. At times the
American government can be held accountable for its actions. Though there are a wide variety of control mechanisms used in America to depoliticize the public and make them unquestioning of the dominant political and economic classes, America is nevertheless still a formal democracy and governments and politicians can be held accountable by citizens.7

Capitalism, alternatively, has no such democratic procedures. The richest investors and corporations own and control the vast portion of the world’s wealth. Capitalism is a decentralized system of accumulation that breaks down spatial and political boundaries in search of profit.8 Often it works harmoniously with the United States government, with politicians of all parties largely supporting the tenets of the free market, but at times, as we have seen with the recent financial crisis, there can be tension and conflict between the American government and capitalists. So while it would be simple to focus, as many scholars do, on the American political apparatus or on the capitalist system, each side represents two interlinked determinants of imperialism – between the political and military power of the United States and the accumulation strategies of the capitalist system.

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Chapter 2:

The Co-optation of Mainstream IR for the Project of Empire

We will, in fact, be greeted as liberators – Vice-President Dick Cheney on the reaction of Iraqis to the upcoming American-led invasion.9

This chapter provides an assessment of the major contributors in mainstream IR in the United States who write on empire. My purpose is neither to discuss every scholar who writes on America’s dominant role in international relations, nor examine every sub-theory that somewhat involves empire, but to provide an analysis of the major scholarly and popular contributions in IR. I will begin by examining the development of the university system in the United States. America has a unique history with its academic institutions where the government has purposefully co-opted political science into the project of empire.10 This has had an influence on the scholars it has produced. I will show government and corporations privilege scholarship that promotes rather than critiques the establishment. Of particular importance is the tendency of American scholars to neglect Marxist and critical accounts, preventing a broader reflection over the academy’s role in US foreign policy.11 The presence of the US government in the university is one of the reasons why the American intelligentsia is often reticent to criticize American policies, because critical scholars are often marginalized when they do so.


10 A similar cooption has occurred in economics and math departments throughout the United States to support the international financial system and major firms. For more see: Charles Ferguson. Predator Nation. (Crown Publishing: New York, 2012).

This chapter will then evaluate the outcome of the co-optation of the university system by assessing the major theories in IR: realism and liberalism. Though many academics that I will discuss can be categorized in both of these subfields, this division is mainly for organizational purposes and not to conclusively label each scholar. As I will discuss in detail, academia is part of the broader American political discourse that limits dissent. Both the government and corporations seek to prevent academia from producing scholars critical of US foreign policy and capitalism. My goal will be to show how this literature offers a non-debate on empire. Realists and liberals may diverge when it comes to policies of the United States government, but they ignore or downplay the underlying material forces driving American foreign policy. The seemingly objective analysis of realism and the normative goals of liberalism help to spread and promote empire. From there, I will critique both realist and liberal scholars in their role both as policy-makers and ideological supporters of the American empire. The constant pressure from government and corporations has led IR to adopt similar behavioural approaches to conduct research. Thus, America’s history as the dominant superpower has had two major consequences on IR: it has been heavily shaped by positivism, and its research is rewarded if it contributes to policy. It will be my goal in the later chapters to provide a better, more insightful, analysis of imperialism than is offered in mainstream American IR theory.

**The American University System and International Relations**

The recent history of university education in the United States has been influenced by two major events: the rise of the America as a dominant global power after the Second World
War along with the subsequent militarization of American culture, and the expansion of global capitalism as the dominant economic system after the Cold War. These tendencies, taken together, have left an unmistakable mark on the way IR is taught, researched and reproduced in the United States, leaving little room for critical analysis of the American empire. Due to this co-optation, the discipline of IR in America has produced a non-debate over US foreign policy. The focus on teaching the theories of realism and liberalism serves to prevent alternatives from becoming popular in academia. As RBJ Walker states:

As roles in a Manichean theatre, these terms [realism and idealism or liberalism] have served primarily to close off serious discussion in a manner that has helped to insulate the discipline of international relations… to the categories of realist and idealist, as they were deployed in these debates – and as they have since come to provide convenient labels and systems of classification – should be understood as the primary forms in which the basic assumptions governing the study of world politics have been left to congeal, requiring little further exploration. As such, they provide a starting point, and a point at which awkward questions may be deferred.

The dominance of the dichotomy between realism and liberalism in international relations theory serves as a technique to limit more in-depth questions and theories regarding America’s role as the hegemonic military power or the problems related to capitalism. The purpose of this section will be to trace the development of American international relations and how that development has structured the major debates in the field over American foreign policy. I will show how the demands of the American military and corporations have oriented the sub-discipline towards behavioural approaches that can be readily applied as policy. This creates a process whereby the international relations departments eliminate dissenters from achieving prestigious positions with the professoriate; as well it provides empowered groups within America with readily available

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research to promote their agendas. American IR has been unmistakably influenced by the ascent of the United States as the dominant capitalist power in the international system.

Historically, the United States government has had a close association with its academic institutions. This has led American IR to become, as Noam Chomsky states, “the dismal branch of American scholarship”. Increasingly since the end of the Second World War, the government played a dominant role in shaping and rewarding certain types of research, not just in the natural sciences, but in the social sciences as well. Henry Giroux, one of the foremost scholars on education, argues that there is a military-industrial-academic complex that has transformed the purpose and quality of education to one that supports the actions of the United States government. He asserts:

The idea of the university as a site of critical dialogue and debate, public service, and socially responsible research appears to have been usurped by a patriotic jingoism and a market-driven fundamentalism that conflates the entrepreneurial spirit with military aggression in the interests of commercial success and geopolitical power.

Universities often serve as a social outlet for student activism and progressive causes. In the 1960s and 1970s, American universities were often at the forefront of the anti-Vietnam war protests due to the youth and activism of the baby boomers. The American government has been placing pressure on academic institutions to fall in line with their interests. The implications of this are significant for the intelligentsia and education in the United States. For study of international relations, this has placed more pressure on academics to focus on research that is uncritical of American government or business interests.


16 Ibid., 21-22.
The relationship between government and academia in the study of IR is not a new phenomenon. Though the field in the United States has its roots in the early 1800s, the discipline started forming as a separate area of research after the First World War. IR started in England as multi-disciplinary avenue for scholars, diplomats and government officials to research issues related to conflict, security, and sovereignty. Alternatively, American IR developed as part of political science and government departments under the close watch of the US government. The American government recognized the potential use of IR for the purposes of policy and took steps to maintain academic control through the National Science Foundation and private endowments. American IR developed largely, though not exclusively, as an applied field, much more focused on quantification, rational choice, and policy-making than European political science institutions. This is reflected in the major theories that are popular in American IR – realism and liberalism. The major theories that evolved are problem-solving and behavioural, and often the research produced is used for policies to prevent major conflict, either through a balance of power or institutional arrangements. While the objective of global peace may be desirable, the problems with this goal in the American academy began almost immediately with the start of the Cold War. The Second World War left the international system with two remaining superpowers: the United States and the Union of Soviet Socialist Republics (USSR). These two countries had ideological differences, with the United States, at least rhetorically,


18 Ibid.


20 Ibid.

committed to free markets and electoral democracy, and the USSR enforcing central control of the economy and one-party rule. The rivalry between the two countries for spheres of influence and resources led the United States to act in a central role to prevent the spread of communism.\footnote{Thomas G. Paterson. “The Origins of the Cold War” \textit{OAH Magazine of History} Vol. 2, No. 1 (Summer, 1986): 7.} The geopolitical tensions, and the overall fear of communism, had significant repercussions for academia and IR in the United States.

By the 1950s, the Red Scare had begun with the fear of Soviet infiltration in the government, media and academia. In order to prevent the professoriate from perpetuating “Un-American” ideals, the Federal Bureau of Investigation (FBI) launched investigations on college professors. Between 1951 and 1955 the Justice Department and the FBI leaked derogatory personal information on over 400 schoolteachers and professors, hoping to force dissenters into quitting their jobs.\footnote{Federal Bureau of Investigation. \textit{McCarthy Era Blacklisting of School Teachers, College Professors, and Other Public Employees}. Edited by Kenneth O’Reilly. (Washington DC: University Publications of America, 1989.): vii.} So from the early post-war era, the United States government took an interest in the make-up of the American professoriate – even going to so far as to publicize confidential information on teachers that were deemed too critical of the United States or capitalism. However, this was not just a product of the 1950s Red Scare; even in the 1960s and 1970s the FBI worked to “expose, discredit, disrupt, or otherwise neutralize” the educational activities of people affiliated with Trotskyite Socialist Workers party, the New Left, the Ku Klux Klan.\footnote{Ibid., xi.} When the civil rights movement started gaining political power, black “hate” groups ranging from the Black Panther Party to Martin Luther King's Southern Christian Leadership
Conference were also the targets of the FBI. The FBI was particularly suspicious of the Vietnam anti-war movement, fearing professors would have an undue influence on the minds of students and potentially inciting them towards radicalism. The United States government worked to prevent dissenting teachers from achieving positions of authority in the educational system.

A consequence of the post-war hegemony is that the United States government started channelling money into policy-oriented projects. Generous research grants reward IR scholars that produced research relevant to the state department. Ole Waever argues:

After 1945, the U.S. led in channelling increased funds to research (inspired by the applicability of research during the war). Although maintaining academic control in the National Science Foundation and even some of the private foundations, the new money stimulated practical, useful knowledge and thereby “behavioural sciences” and “policy sciences” (Due to the dominance of university-based research, these monies led to theory and research programs [in IR] that promised policy relevance, not primarily to simple policy articles.).

The money offered by the National Science Foundation led IR in America to generate applied research, privilging “scientific” approaches to political problems. The dominant methods and theories that have developed since the Second World War in IR reflect the influence of US government. As I will discuss in detail later in this chapter, research in realism and liberalism have been conducted using behaviouralism, while alternative methods and theories have been underfunded by the public and private sector and ignored by major American journals. Thus IR departments were set up to produce scholars who adopted these methods and added to the

25 Ibid., xi.
26 Waever, 714.
popular theoretical debates in the field. This had led to a distinctly American study of international relations; one inexorably linked to the policy objectives of the US government. However, the influence of the United States government over American universities was not just a product of the Cold War though; it continues to shape the research goals of major universities to this day.

Since the terrorist attacks of September 11th, 2001, the United States government has increased its involvement in shaping both the curricula and research agendas in its universities. Government grants have been rewarding scholarship and students that meet the ‘national interest’ rather than academic excellence. Universities, for their part, have responded positively to the incentives of government to fall in line. As Giroux notes:

[T]he Association of American Universities argued in a report titled National Defense Education and Innovation Initiative that winning the war on terrorism and expanding global markets were mutually informing goals, the success of which falls squarely on the performance of universities. This group argues… that every student should be trained to become a soldier in the war on terror and in the battle over global markets.28

The American government has changed its view of academia from one of cautiousness over its ability to subvert the minds of students, to one where educational institutions can be co-opted to promote the security and economic interests of the state. The minds of students are now the frontline against the war on terrorism and anti-capitalism. In 2006, the U.S. Supreme Court even ruled it was within the federal government’s authority to withdraw funds from universities that turned away military recruiters.29 This judgement effectively gave a warning to any universities that receive government money: it must allow the military full access to students or else face

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28 Giroux, 19.

financial penalties. Furthermore, the Pentagon offers billions of dollars in research grants and scholarships to institutions that focus on national security and anti-terrorism.\textsuperscript{30} In the United States, where often funds for research are in short supply, the security establishment provides a source of money for academics that share the same policy goals.

For IR, more than any other direct repressive measure, financial gain has been one of the main methods used to shape the discipline. One of the predominant ways to advance in the professoriate is by publishing in well-established journals. In the United States, four of the most prestigious journals, \textit{International Organization}, \textit{World Politics}, \textit{International Studies Quarterly}, and \textit{International Security} publish between 86 to 95 percent of their articles from North American scholars.\textsuperscript{31} These journals tend to print rational choice and positivist research. Unlike European journals which tend to have contributors from many countries, these four journals are largely reviewed and edited by Americans creating a separate American brand of IR.\textsuperscript{32} Moreover, if academic success in the US depends upon the amount of research published, then the journal editorial board’s biases represent the gate-keepers towards upwards mobility in the professoriate. What this constructs in the United States is an incentive for researchers to adhere to a narrow set of methodological and epistemological assumptions in order to find a job in the American academy.\textsuperscript{33} Of course, this has ramifications for the way in which IR is taught in the United States. This reinforces the teaching of realism and liberalism as the core theories for explaining the behaviour of states, thus preventing a critical analysis of US foreign policy from

\textsuperscript{30} Ibid., 22.


\textsuperscript{32} Ibid., 703.

\textsuperscript{33} Ibid. 723.
within the academy. Instructors who are trained in positivist methods and rational choice theory are much more likely to be in more prestigious teaching positions, thereby shaping the views of another generation of young scholars.

The government is not the only major institution that has shaped the university system; corporations also play a strong role in the research agendas of the professoriate. After the relative decline in public spending on education in the 1980s, corporations have started funding academic research projects that demonstrate “practical” applications. The funding of academic projects and programs which promote free market capitalism or conservative ideologies; the placement of university administrators on the boards of corporations which directly benefit from the administrator’s position; and faculty stockholders in corporations who benefit, as do the corporations, from research supporting the effectiveness and safety of corporate products, and from the censorship of research that does not.

The increasing presence of corporations in academia is not without consequence: the primary goal for businesses is to increase profits, and they expect a return on their investment in universities. This has the added effect of forcing academic disciplines to compete against one another for scarce research money, with fields such as women’s studies, philosophy, and ethnic studies pitted against business schools and the hard sciences. Corporations are often unwilling to provide resources for topics that have little ‘practical' use, leading to the chronic underfunding in many subjects in the humanities and social sciences. It also creates incentives for academics to produce research that is uncritical of capitalism that increase the profit margin. Since the

36 Ibid.
reduction in public financing during the Reagan administration of the 1980s, corporations have been putting financial pressure on universities to orient education to meet their interests. In response, both universities and government have altered course curriculum and provided more money for research that has market applications. Corporations are now directly shaping what is taught in American universities.

The administration of George W. Bush facilitated the increased presence of corporations in universities by undercutting government subsidies to education. An aid program targeted at poor and middle class students Pell Grants – government scholarships - were cut and the requirements for student aid were made more stringent, forcing students to rely on banks for loans. This had two ramifications: first, it made many students indebted to commercial banks, which typically have harsher terms and larger penalties for falling into arrears. Secondly, it served as a disincentive for many students from low and middle earning families to attend universities. The high cost of American education and tightening of aid and loans conditions even further makes a university education something only the rich can afford. Furthermore, students saddled with high debt under more stringent terms will be more likely to take any job that can help pay down their loan, and they are far less likely to demand better working conditions, or work for non-monetary rewards, such as Non-governmental Organizations (NGOs) or charities. Changes to loans prevent students from researching topics that cannot be directly applied to the job market, thereby further eliminating courses that engage students in critical thinking. The university system is constructed in order to prevent dissent. From the very


38 Giroux, 108.

39 Ibid., 107-108
start of the educational process, people that may challenge America’s hegemonic role are virtually eliminated as the system is stacked against the poor and working class. Even if a few do find a place in the university system, the curriculum is shaped in such a way to hamper critical thinking about the economic system, by focusing exclusively on skills to meet the job market.

Due to this close relationship with government and business, the majority of American IR scholarship has been positivist, producing research using rational-choice and game theory. While there are numerous dissenting professors within the American academy, the influence of powerful political and economic interests on the study of IR has led to reluctance on the part of professors to engage with the ideas of Marx, Gramsci or Foucault. Even the supposed “critical turn” of the late 1970s in IR turned out to be unsuccessful: American scholars refused to abandon their positivist commitments and instead spent time and resources on the neorealism-neoliberalism debate. In the 1980s and 1990s, this was reinforced by the hiring practices of most political science departments; there were few spaces for critical approaches in IR, leading many critical scholars to move to sociology, gender studies and geography. Generally, American IR is constructed so governments or businesses can use the research for public policy. Wayne S. Cox and Kim Richard Nossal assert: “a larger percentage of ISA [International Studies Association] sections (between 10 to 23) deal with issues, or are dominated by research problems that tend to work within an applied, behavioural, rational-choice, or problem-solving way”.

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40 Ricci, 144.
42 Ibid.,122.
Due to the history of academia in the United States this is not at all surprising. The discipline evolved during the period of the Cold War, with America as the dominant capitalist power in the world. IR in the United States has been largely co-opted by these forces and it shows in the method and epistemology of IR conferences and its publications. As Nossal and Cox discuss, IR in the rest of the ‘crimson’ world (British post-imperial Anglophone-speaking) has taken on a distinct character, with post-positivism more deeply rooted than in American institutions.44 This is due to the historical trajectory of a country and its relationship with academia and the internal debates within academic departments.45 The US government with its history of promoting scientific, policy-oriented research has led to a considerable difference in the way IR is produced in America. Though there are scholars in the US that are sceptical of American foreign policy, IR avoided a broader “critical turn” due to its experience as an empire, and the ability of its government to shape the university into an institution that relies on private contributions.

One consequence of business and government co-option of academia is that most IR scholarship avoids questioning America’s foreign policy. As discussed earlier, part of this can be attributed to the legacy of the clamping down of radicals in America during the 1950s, while another reason is the increased amount of corporate money in shaping research agendas. Though some in the mainstream literature did question the Bush administration’s reasons for invading Iraq,46 political science in the US was late to examine the consequences of that war. The result of

44 Ibid., 292.
45 Waever, 689.
the co-option of the American university has led IR to ignore the major topical issues facing the United States. As Carl Boggs notes:

_The American Political Science Review_ has published few articles on topics related to the Middle East, none of them critical in substance. At the 2006 American Political Science Association convention, among roughly 1500 presentations by scholars across the US only three dealt with Iraq – and none of those focused on the war or the occupation. The far-reaching consequences of the Iraq disaster would seem to be a topic of urgent political interest, but the discipline merrily goes about other agendas more compatible with their abstract rational-choice models, game theories, and so forth.47

The war in Iraq, the most important political decision made by the Bush Administration, was ignored as a topic of research by the largest political science organizations in the United States.48 This was both a sign of the political culture of the time, and due to a long-standing history of deference. American IR then can be viewed as a larger part of American culture. It is heavily influenced by the interests of business and capitalists, and, is unwilling to criticize American foreign policy unless it becomes publicly popular. So though there was a substantial debate within IR over the war in Iraq – which will be discussed later in this chapter – American political science is reluctance to criticize the government.

Many academics often alternate between think tanks and political science departments. The nearly 2000 American think tanks are “universities without students” and range in size and funding from between a few hundred thousand dollars, to some with over $80 million.49 Some think tanks are affiliated with universities, as is the Hoover Institute with Stanford, while others


48 Ibid.

are completely unaffiliated. Most think tanks tend to be politically centrist (47 percent) or right-leaning (37 percent), with some of the larger ones promote free markets, like the American Enterprise Institute or security-related issues such as the RAND Corporation. The funding for thinks tanks comes from a wide variety of sources ranging from those that receive government money, like the RAND Corporation, to the vast majority that rely upon donors and private industry. Thus, think tanks mirror many of the same problems as American academia. They rely on private funding which tends to skew the research produced – they are conservative and pro-free market. Think tanks have even been criticized as an alternative way for corporations, such as oil and technology companies, to influence public opinion and legislation. Moreover, they are, at times, directly involved in presidential administrations. The Heritage Foundation and the Project for the New American Century provided policies and ideas for the Reagan and George W. Bush Administrations respectively. Think tanks serve an alternative body of scholarship to universities, but similarly are co-opted by American political and corporate interests. Their reliance on the private sector leads many think tanks to produce research that supports the views and goals of their donors. So rather than being an intellectual counter-weight, think tanks are another source of policy for the American imperial project.

50 Ibid.
54 Singer.
IR in America reproduces itself in order to meet the demands of the government and corporations. With the ascendancy of the United States after the Second World War, protecting the professoriate from Soviet infiltration and radicalism became a paramount objective of the U.S. government. Since World War II, American IR tends to be more behavioural and applied than political science in other countries. IR is part of the military-industrial-academic complex and is used for the purposes of policy-making. As Stanley Hoffman noted in 1977, IR emerged with “the desire to concentrate on what is most relevant, and the tendency (implicit or explicit) to want to be useful, not only as a scientist, but as an expert citizen whose science can help promote intelligently the embattled values of his [sic] country”. 9/11 renewed the goals of American political science to be a part of the effort against the war of terror. The influence of the United States government on IR has made it a discipline that is largely uncritical of foreign policy. American IR scholars often tout the promise of democracy, free markets and ‘freedom’ while ignoring the United States government’s use of violence. Dissent within academia is viewed as “un-American” or unproductive if it cannot meet the needs of capitalism or the military. Indeed, the relationship between government, the private sector and academia extends far: many professors in international relations have ties to political elites and the United States government. Often many notable figures like Condoleezza Rice and Henry Kissinger spent a large portion of their career in academia before entering the executive branch. This is not unusual due to the mutual reinforcing goals of IR and the American establishment, with IR working to shape policy and excuse the actions of the government. The purpose of the next section will examine the research that is produced by American IR and how these scholars act as ideological justification for empire.

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55 Ricci, 144.

56 Hoffman, 47.
American IR and Empire

Mainstream scholarship of IR in the United States typically falls into two theoretical schools: realism and liberalism. The legacy of the military-industrial-academic complex has left an impression on each of these schools of thought. Realists tend evoke the concept of stability and maintenance of the status quo. They argue the United States plays an important role in the global system by providing security. For liberals, America is an exceptional country: it is largely constrained by its commitment to human rights, international institutions and free markets. America has a unique global mission to spread its values. The purpose of this section will be to show the result of the co-optation of the American academy on the major theories in IR. These theories share similar methodological and epistemological assumptions, but this will examined in chapter 2 when I will elaborate upon what a dialectical approach can offer an examination of imperialism. Both realists and liberals argue America plays a positive role in global politics as the hegemonic power. Though they may disagree over the use of international institutions to mediate conflict, scholars from both theories agree the American government must defend its interests whenever vital interests are threatened. The major debates in IR tend to ignore or downplay the problems associated the American imperial project. They often lack a deeper reflection of ethical and moral issues related to America’s economic and foreign policy. Realists and liberals ask how America can fix global problem, not whether it should intervene. Moreover, they ignore the broader implications of US foreign policy on the non-American world. America has a poor record of military and economic intervention in Latin America, Africa and South East Asia, frequently creating more problems than actually solving. Yet for realists and liberals, the US is conceptualized as a positive force in global politics, though it may have lapses in
judgement from time to time. It will be my goal in the later chapters of this dissertation to provide a more critical analysis of imperialism than is offered by realism and liberalism.

**Realism: America for a Safer more Secure World**

Realists are among the largest group of scholars in International Relations. There are many subfields of realism in IR, but unlike in Britain or Canada, American IR has been more significantly influenced by positivism and the behavioural revolution of the 1950s and 1960s. By the time Kenneth Waltz introduced structural realism when he wrote *Theory of International Politics* in 1979, the field had become dominated by positivist research.\(^{57}\) Though American realists may have numerous differences in their analysis of the international system, there is an agreed upon goal of finding “scientific” explanations.\(^{58}\) The purpose of this section is to provide an analysis of the major contributions of American realism to the project of empire.\(^{59}\)

Contemporary American IR scholars argue the United States should maintain international peace and security and provides policy advice for this agenda. They argue the United States has a major role in the international system due to its relative capabilities – its military, economic and political assets. The US cannot afford to be reluctant about promoting its interests throughout the world- peace and stability has the added benefit of promoting global prosperity and commerce. Its position allows it the unique ability to punish state and sub-state groups that disrupt the

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\(^{57}\) Martin Hollis and Stephen Smith. *Explaining and Understanding International Relations* (Oxford University Press, USA. 1990): 45

\(^{58}\) Ibid.

international order – thus acting as a type of global police force. It is important to note two major aspects of realist arguments on empire. First, there is an emphasis on international security and preserving America’s dominance, however most realists are often reluctant to use force in order to spread a broader normative project. Secondly, American realism tends to be problem-solving, usually laying out an issue with possible solutions for policy-makers. This is due to the history of co-option by the US establishment.

Many realists argue that the United States should not hesitate to use its military to further the national interest. One prominent example is US realist scholar Bradley Thayer who argues the United States is an empire and should act according to its own needs. The United States has “a mission it seeks to accomplish- this is usually creating, and then maintaining, a world order”. Since the fall of the Soviet Union, the United States has been more or less free to follow its national interests without a major rival. In order to pursue these interests, America may use institutional channels such as the IMF and bilateral agreements, but when these fail, it has an incomparable military force at its disposal. The United States’ “military power gives Washington the power to protect its interests abroad by deterring attacks against America’s potential or actual opponents”. The sheer size of the US military acts as an immediate deterrent to those that might oppose it. For example, the recent invasions of Afghanistan and Iraq sent a strong message to countries and groups that may oppose US dominance that it is willing to use its military force to combat threats. To allies, American military power serves as an incentive for them not to oppose the United States’ broader foreign policy goals. This also gives America a freer hand internationally on economic and political issues. Thayer argues many countries will

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61 Layne and Thayer, 16.
make certain their domestic and foreign policy will not oppose US interests, with full knowledge Washington could use its military as a possible force to retaliate. Thus for realists like Thayer, the American empire not only secures its national interests but also rewards allies through greater international security. While some weaker countries may be invaded or attacked by the United States military, Thayer would argue this is a small price to pay for the benefits offered by America. Even when America’s direct goals are not achieved, like in the case of Iraq or Afghanistan, the United States must remain vigilant and invest more in its military in order to prevent the rise of potential contenders.  

62 Regardless of the costs associated with the American empire, overall it is a positive force for global security and peace.

Along similar lines, Michael Mandelbaum argues that the United States should act as a world government in order to protect public goods, personal safety, and international security. 63 While the United States has some degree of domestic political oversight over its foreign policy, it is still an empire. The United States can act benevolently in the international system and “is not the lion of the international system, terrorizing and preying on smaller, weaker animals in order to survive itself. It is rather the elephant, which supports a wide variety of other creatures... by generating nourishment for them as it goes about the business of feeding itself”. 64 The metaphor aside, the comparison is worth some consideration. The policies of the United States can be beneficial to itself and to others states. The American empire is a force for promoting peace and the global commons, such as seaways and airspace. Greater peace and stability may reduce the


64 Mandelbaum, 10.
likelihood of terrorist attacks from rogue and failed states. America is the only country equipped to handle these large-scale international issues. The United States is a compassionate empire and should not hesitate to take on the role as the de facto world police force. Again we see the major theme of realism is a cost/benefit analysis of the United States as the sole superpower in the international system. For realists America is unquestionably a positive force for stability, peace and order.

The support of American realists for empire often leads to a substantial debate over how long America can maintain its empire, not over the ethical or moral implications of American foreign policy. These arguments focus more exclusively on conventional measurements of power: military capabilities and how long America can continue to have superiority over competitors. Some realists argue that it is only a matter of time before another global power begins to challenge the United States. Others, along the same lines as Mandelbaum, argue it is the interest of the rest of world that America remains dominant. As William Wohlforth argues:

Unipolarity is durable and peaceful, and the chief threat is U.S. failure to do enough. Possessing an undisputed preponderance of power, the United States is freer than most states to disregard the international system and its incentives. But because the system is built around U.S. power, it creates demands for American engagement. The more efficiently Washington responds to these incentives and provides order, the more long-lived and peaceful the system.

For Wohlforth, the main challenge to America’s empire is not the rise of alternative great powers, like the European Union (EU) or China, but American reluctance to exercise its economic and military might. There is a long tradition in American foreign policy of skepticism

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of foreign entanglements – without the existential threat of the Soviet Union this tradition may have greater sway over policy makers. Wohlforth argues the United States plays a positive role in world politics; other states require America to use force when necessary to preserve international order. If the United States fails to do so, it will be an incentive for other regional powers to fill the void. The worry is that America may turn away from its essential role and another, far less controlled less benevolent superpower may take its place. Thus America should play a greater role in the International system, exercising the use of force when its interests are threatened.

These scholars agree empire benefits the entire international community and offer recommendations to extend America’s dominance. Regardless of the possible negative consequences of empire, since America brings international peace and security, it should be its goal to remain dominant as long as possible, even if this means using military force to prevent possible challengers from arising. This, of course, is an extremely idealistic interpretation of the role of the United States in global politics. Without meaningful external or domestic constraints, there is no check on the United States if it threatens international stability. The result of the co-option of mainstream IR is that the debate by American realist IR is largely over how long American can remain an empire, not whether America should be an empire. Though American realism may debate the actions of United States government – and these issues are sometimes contentious – they are largely policy-centric, and do not question the fundamental distribution of power in the international system nor the violence that is inevitably associated with the project of maintaining an empire. The focus of empire for America realism is often on international peace

67 Ibid.
and security; contemporary American IR liberalism has a much more normative global project for the United States.

**Liberalism in IR: Spreading Freedom, Democracy and Markets**

In contrast to American realism, liberals in IR argue the American empire should spread political freedom and open up markets. Most liberals argue the US Empire should have some purpose other than international security and stability. They believe that America is an exceptional case in world history and is different from other hegemonic states. “Manifest Destiny” has a long tradition in America’s politics and foreign policy, with the belief America has a unique historical mission to spread liberty. These scholars believe liberalism has a twofold effect: it can facilitate economic development by spreading the free market system, and it can protect individuals by entrenching basic political rights. When the American government pursues an aggressive foreign policy in the name of ideals such as “freedom,” “human rights,” “democracy,” and “liberty” there is a readily available group of scholars are prepared to defend its actions while ignoring its history of violence and exploitation. American liberals in IR are the central theoretical alternative to American realism – liberals focus more on sub-state actors, and are more amenable to the role of ideas and norms in international relations. In many ways, their mission is often more intrusive than the policy recommendations of realists. Realists are mainly interested in stability and order whereas liberals want to change how people think, act and are governed. The irony is that some of the major contributions to American liberals are from scholars born outside the US – a testament to the ability of the United States to co-opt even foreign scholars for empire.
Niall Ferguson is one of the most outspoken advocates for America to use its unique position in the international system to spread liberal values and free markets. He argues that the US needs to act as a “liberal empire- that is to say, one that not only underwrites the free international exchange of commodities, labour and capital but also creates and upholds the conditions without which markets cannot function –peace and order, the rule of law, non-corrupt administration, stable fiscal and monetary policy”.

The globalization of the world economy requires a dominant force in the world to advance economic liberalism. The US thus far has been an “inept empire builder” but it has the potential to use its vast power and resources to become his ideal version of a liberal empire. For Ferguson, the real problem is the United States is reluctance to use its resources in order to fully institute a global empire. He laments that there is a tendency within American culture towards isolationism and a general scepticism of long-term military commitments to nation-building. This is where the liberal tradition begins to differ from the realist tradition within American IR. Generally speaking, American realism is concerned with the maintenance of peace, order and the status quo - not high-minded ideals such as democracy and human rights. By contrast, contemporary American IR liberalism argues that America should have this normative project.

Another liberal scholar, Michael Ignatieff, supports an American empire as long as it uses its military force to promote human rights. His belief in “Empire Lite” combines many of the facets of realist theories on empire -a defence of security and stability. However, Ignatieff makes an important caveat that realists would reject: he believes for the American empire to maintain

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69 Ferguson, 3.

70 Ferguson, 29.
its supremacy it “needs legitimacy and multilateral support as a useful cover”.\textsuperscript{71} The US needs to participate in a series of multilateral institutions and alliances. These limitations would prevent unilateral actions of the American empire and thereby give it a veneer of global legitimacy whenever force is used. Ignatieff envisions a humanitarian empire, held together by the promise of democracy, human rights, and rule of law.\textsuperscript{72} Of course, this humanitarian empire, imposed by America with European and some East Asian countries, will also spread free markets. The American empire must have two agendas in order to promote its own security internationally – on the one hand it must intervene where necessary when human rights abuses take place and states begin to fail, and on the other, it must rebuild these societies in order to maintain human and liberal rights.

Regardless of their seemingly benevolent intentions, liberal values were co-opted by the Bush Administration in the lead-up to the invasion of Iraq in 2003. Although there are many possible reasons the Bush Administration invaded Iraq, ranging from an interest in exploiting its oil, to fears over weapons of mass destruction, and Bush’s personal vendetta with Saddam Hussein, a major thrust of Bush’s rhetoric was the promise of bringing freedom and democracy to Iraqis. After the invasion, Bush justified his decision because of “the ability of liberty to transform societies, to convert a hostile world to a peaceful world”.\textsuperscript{73} Bush’s argument largely echoes the Democratic Peace Theory (DPT), the assumption that liberal democratic countries rarely, if ever, go to war with each other.\textsuperscript{74} Bush and the members of his administration assumed


\textsuperscript{72} Ignatieff, 17.

\textsuperscript{73} Bruce Russett “Bushwhacking the Democratic Peace” \textit{International Studies Perspectives}. Vol 6, No 4, (November 2005); 398.

that Iraqis would readily adopt a liberal democracy once Saddam was removed from power. Though Bruce Russett argues convincingly that instituting democracy through regime change is rarely successful, these ideals were appropriated in order to justify the invasion of Iraq.\textsuperscript{75}

Unsurprisingly, there were numerous American scholars and journalists in the liberal tradition that supported the Bush Administration (including both Niall Ferguson and Michael Ignatieff).\textsuperscript{76} They focused on the human rights abuses of Saddam’s regime and argued his removal would be better for America and the Middle East. The neoconservatives in the Bush Administration such as Dick Cheney, Donald Rumsfeld, Paul Wolfowitz, and Richard Perle appropriated these principles. The neoconservatives believed America should spread democracy through the use of force, and by doing, bring an “end to evil”.\textsuperscript{77} For many American IR liberals, the war in Iraq represented the realization of their ideals: finally America was using military force to overthrow a hostile regime, spread free markets, and institute a liberal democratic political system. Though many American liberals in IR did oppose the war in Iraq on humanitarian grounds,\textsuperscript{78} many supported the war and their ideals were appropriated by the Bush administration.

An underlying problem for liberal accounts of empire is they ignore the violent international and domestic history of the United States. Liberals presents an approach to empire that divorces the rhetoric of American ideals from the violence of the American imperial project.

\textsuperscript{75} Russett, 396.

\textsuperscript{76} Brian Lilley, “Ignatieff linked to Iraq war planning”. \textit{Edmonton Sun}. Wednesday, April 20, 2011

\textsuperscript{77} This statement is not an exaggeration of the overall goal of neoconservatives. In response to the terrorist attacks of 9/11, many neocons argued the United States must use its military power to bring democracy and freedom to rest of the world. The war in Iraq was the first phase of a broader global project to end ‘evil’ as they define it. Richard Perle and David Frum. \textit{An End to Evil} (New York, Ballantine Books, 2004).

\textsuperscript{78} Numerous scholars in both the liberal and realist tradition signed a petition against the war that published in the New York Times during the lead-up to the invasion of Iraq. See: “War in Iraq Not in America’s National Interest” \textit{The New York Times}. September 26\textsuperscript{th}, 2002. http://mearsheimer.uchicago.edu/pdfs/P0012.pdf
Despite the popular image of the United States as different and morally superior to other empires, American foreign policy has shown a great deal of continuity since the Second World War, promoting its hegemony through free markets, culture, and using its military might when necessary. Both Ferguson and Ignatieff view capitalism and free markets as gifts America provides to the rest of the world, rather than a driving force of imperial expansion. Benjamin Barber argues that American exceptionalism—the belief in the righteousness of the United States—led the United States to a far more aggressive foreign policy through invading Iraq. The use of American exceptionalism is often used to justify an otherwise militaristic, self-interested foreign policy. Liberals support American interventions in the name of liberty and freedom, but ignore the dark side of US foreign policy such as when its uses the military or international economic institutions like the IMF, such as in the case of Chile, Panama, Vietnam, and Iraq. They also downplay or ignore the inevitable civilian violence and torture that goes along with forcibly expanding the American imperial project. Scholars, like Ferguson and Ignatieff, hold on to the belief that the promotion of liberty and freedom can be divorced from the violence of an American empire. The recurring idea for liberals is that America is force for good in the world, while the actual record of militarism and economic exploitation is ignored.

Many liberals believe that while previous empires may be expansionist and violent, the United States is constrained through international institutions and by its liberal values. The conviction that America is unique among nations has been evoked by leaders as disparate as Abraham Lincoln, Woodrow Wilson and Ronald Reagan. Politicians often argue America is

the only state that can bring about peace, prosperity and democracy to the rest of the world as evidenced by America’s opposition to communism and Nazism. Yet the same rhetoric has been used to justify American military intervention. The most recent example has been the United States under the administration of George W. Bush. After the terrorist attacks of September 11th, 2001, the Bush Administration used the military to invade Afghanistan and Iraq with the justification that it was the only country that could bring freedom to the oppressed.

Liberals argue that international regimes can mitigate the unilateralism of American foreign policy. This theory originated with the work of Robert Keohane and Joseph Nye. They argue since the Second World War, the increase in international economic transactions and institutions heightens the amount of trust between countries and lowers the possibility of military conflict. Though Keohane and Nye recognize inter-state conflict still takes place, the participation in international regimes has a tendency to foster norms of reciprocation between countries; greater interdependence creates a disincentive towards the use of force to resolve differences. They offer a departure from realist theory since American realism tends to examine areas of high politics, like security or military strength, in order to assess the possible threats a country may be to the international community. Keohane and Nye argue complex interdependence occurs when there is an absence of a hierarchy of issues, meaning that security often is not a top priority, and there are multiple channels that connect societies at the sub-state level. These increased relations often blur the line between domestic and foreign relations making war between two highly interdependent societies, like Canada and the United States, exceedingly unlikely. We can infer from Nye and Keohane that the increase of economic and

83 Keohane and Nye, 25.
social connections will make it likely states will use non-violent ways to mediate conflict. Thus, the involvement of the United States in bilateral agreements, international regimes and organizations can lead to procedures that will make the use of America’s military power less likely.

John Ikenberry argues the unique institutional character of the current international system prevents other states from challenging American dominance. The United States is restrained by a series of international regimes that both provide returns for other countries, and prevent Washington from abusing its hegemony:

The durability of the Western Order is built upon two core logics. First the constitution-like character of the institutions and practices of the order serve to reduce the returns to power, which lowers the risk of participating to strong and weak states alike. Second, the institutions also exhibit an ‘increasing returns’ character, which makes it increasingly difficult for would-be orders and would-be hegemonic leaders to compete against and replace the existing order and leader.84

The institutionalization of American power prevents possible competitors from aligning against it. The United States abides by an established international order that provides incentives for states that choose to go along with the system. For American liberals in IR, America is part of a highly institutionalized series of practices and laws that are unique in their ability to prevent states from creating alliances against the current global order. The continuance of the system requires that the United States act in accordance with international institutions and expectations. If it does not, then other states will begin to oppose the United States and its dominance will be threatened. But, according to Ikenberry this is unlikely given the character of the United States: its emphasis on the rule of law, its liberal cultural values, and its participation in institutions.

The solution to American unilateralism is to increase the commitment of the United States to democracy, international institutions and regimes. In response to the continued threat of the war on terrorism, John Ikenberry and Anne-Marie Slaughter argue:

The United States has the largest stake of any nation in fixing this system [the UN, the IMF, the World Bank], precisely because we are the most powerful nation in the world. Power cannot be wielded unilaterally, and in the pursuit of a narrowly drawn definition of the national interest, because such actions breed growing resentment, fear, and resistance. We need to reassure other nations about our global role and win their support to tackle common problems.  

This recommendation represents the culmination of American liberal ideals in IR. Though they understand America must defend itself from security threats, it must do so in a manner that strengthens international alliances and garners global public support. This can best be achieved by the United States reforming major intergovernmental regimes, like the UN. By increasing the scope and power of regimes, America can reduce the impression that it is a security threat, thereby limiting the fear for other countries that may be the next country invaded by the US military. However, Ikenberry and Slaughter are not pacifists: they have an ulterior motive. The reason for the United States to strengthen its relationship with other countries is that it makes it easier to spread democracy, the rule of law and free markets.  

Behind the language of national security lies the normative commitment of Ikenberry and Slaughter to liberalism. Similar to other liberals, they believe the United States must promote democracy as part of its global mission - where they differ from others is through the method. They argue the best way to ensure both American security and the spread of liberalism is through the use of incentives.

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86 Ibid., 25.
Liberals in IR, such as Ferguson, Ignatieff, Doyle, Barber and Ikenberry and Slaughter, argue the United States is a unique case in history: its commitment to liberalism, democracy and free markets make it different from any other dominant state. They popularize the belief that America has no interest in empire – though it may from time to time use its military in a belligerent manner, these are the exceptions rather than the rule. Even when the United States does act as the aggressor, it is often to defeat dictators, or open markets, in order to spread a democratic peace. As most American IR liberals argue, the world needs more American presence in international institutions, and more American values, not less. However, these liberal values often do not translate into foreign policy – as evidenced by the United States propping up dictators both before and after the Cold War, and the invasion of Iraq and Afghanistan. Though this rhetoric is often used to justify America’s foreign policy and promote free markets, America betrays its commitment to liberalism when its interests are threatened. In 2003, America invaded Iraq much to the chagrin of its former Atlantic alliance partners and in opposition to the United Nations Security Council. Though many liberals in IR disagreed with the invasion of Iraq, both dissenters and supporters do not dispute America has a legitimate and positive role to play in international politics – they merely differ on the specific policies. This has been a particularly difficult issue in areas where national interests conflict with political liberalism and human rights, such as in the cases of Saudi Arabia, or more recently the Arab Spring revolutions in Egypt and Libya. American liberals are torn over whether security or ideals should take priority. The US government is less uncertain. The government may tout the rhetoric of humanitarianism or use international institutions when it suits it needs, but it is quite willing to ignore all pretences and use violence. Liberals are correct that international regimes do mitigate conflict between like-minded societies, but we must consider the quality of these conflicts rather than just their
presence. Tension between western capitalist countries may arise, but these often are over minor issues rather than a broader challenge to America’s position in the world or the dominance of capitalism as the global economic system.

Though liberals are better at integrating sub-state politics in their analysis, they have a tendency to abstract the values of the United States from its history. The opening of markets has a less than favourable record: the Washington Consensus and IMF’s promotion of neoliberal policies have been controversial and in many cases led to an increase in poverty and inequality.\(^8^7\) Free markets are often not adopted as organically as liberals may suggest. It is often disruptive to indigenous forms of production and distribution and often comes at the expense of the environment and local cultural practices. Moreover, the focus on democracy promotion and global liberty ignores the fact that many western countries continue to have problems living up to their domestic commitment to liberal ideals. Although it has made strides in certain areas, many groups within American society such as blacks, gays, women, and Latinos remain marginalized in a number of significant ways (economically, politically disenfranchised, persistent racism, gender inequality, etc.). Although the government has allowed these groups to have formal political rights, it remains difficult to deal with the longer history of economic and social exploitation faced by these groups. So paradoxically, liberals often promote a system of government and cultural ideals to the world when America still has substantial problems with domestic inequality, liberty and democracy. For a country that claims that its Manifest Destiny is to export its values and virtues to a world that needs these attributes, the argument quickly loses its strength when America struggles to make these values work at home.

Summary and Conclusions

This chapter examined the effects of the United States government and corporations on the mainstream study of American IR. Due to the ascendancy of the US since the end of the Second World War, the government has viewed political science with a great deal of suspicion. It was aware of the possible subversive role of the professoriate and worked to prevent radical ideas from being taught. In many cases, this meant using the FBI to leak embarrassing information on teachers in hopes to keep them quiet. Since the terrorist attacks of September 11th, 2001, the government no longer fears the corrupting power of universities, but views them as an asset to further the goals of empire - part of the military-industrial-academic complex. For the study of IR, this has led to a co-optation by political and economic interests. Scholars are rewarded for research that can be applied, and are often denied already scarce research funding if they are critical of American foreign policy. Consequently, American IR is largely policy-centric and has a far greater emphasis on rational choice and game theory. Research with practical applications can be used by the state to institute new policies or by business for profit. The development of IR under the careful watch of the American government is one of the major reasons for the banality of its major theories, and why they lack a strong critical tradition.

The two most prominent theories in the United States, realism and liberalism, are the outcome of this history. The research produced in each school serves as both ideological justification for America and a readily available source of research for policy makers. Realists tend to focus on international security and stability, and often recommend strategies to extend American dominance over the international system. Liberals are far more idealistic. They believe
the US is an exceptional case in history, and should use its power to spread liberalism, democracy and human rights. It was partially using this liberal rhetoric that the Bush Administration found support from liberals in IR. In many ways, the liberal tradition in IR is far more dangerous than realism. Realists use a cost/benefit analysis for foreign policy and emphasize the maintenance of the status quo, while liberals hold no such reservation about the use of American power and believe in a normative mission for the United States that are almost religious in their zeal. When scholars from these schools do criticize America, which is less common than one might think, it is usually over the goals of empire, not a critical reflection of the dominance of the United States or deeper ethical issues related to American hegemony. A central reason for the problems in these theories is historical and methodological. The influence of the US government on American IR has led to a co-option of the mainstream scholars, which results in a positivist method and ontology in order to achieve the goals of their research. These approaches have difficulty grasping the complex and internally contradictory nature of contemporary imperialism. Realist scholars ignore that policies that are intended to prolong American hegemony, such as through spending more money on defense spending or by more military interventions or by opening new markets as a spatial fix, can increase the speed of American economic decline. While liberal scholars cannot seem to understand that a greater commitment by the American government to its brand of democracy and free markets breeds opposition from a variety of people and groups in both the global North and South. It will be my purpose of the next chapter to offer an alternative method and ontology for understanding empire – one from a Marxist epistemological tradition that can help to provide greater insight into the process of imperialism.
Chapter 3:

Dialectic Historical Materialism: An Examination of Marx’s Method

*Just as one does not judge an individual by what he thinks about himself, so one cannot judge such a period of transformation by its consciousness, but, on the contrary, this consciousness must be explained from the contradictions of material life, from the conflict existing between the social forces of production and the relations of production.*
– Karl Marx.\(^8\)

In order to assess the merits of positivist and critical theories of empire and imperialism, I will set out the approach of DHM. This method relies on the work of Marx and others who have investigated the expansionary tendencies at work in the capitalist mode of production and its implications for the structure of power and politics at the global level. The purpose of this chapter will be twofold. First, I will evaluate the methodological assumptions of mainstream IR. Chapter 1 examined how mainstream theories of empire act as a justification to the actions of the United States; this chapter will examine the influence of positivism on the field. Secondly, this chapter will outline the major methodological assumptions of DHM: how dialectics differ from conventional social science, and why a focus on relations provides a superior insight into imperialism. The overall purpose of this is to lay the methodological groundwork for an historical reconstruction that will take place in the later chapters. DHM ensures that concepts used for social research must be situated in their unique social relations rather than abstracted for the sole purposes of transhistorical comparison. Since a substantial portion of this thesis will be an examination of the United States, the largest and most powerful economy in the world, I will explain DHM’s emphasis on the contemporary capitalist system. Though production will not

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explain everything about imperialism, it serves a as a point of methodological focus and
departure for other relations. It is important to note that I do not believe that concepts such as
‘dialectics’ ‘history’ and ‘materialism’ can be conceptualized independently from each other -
the subcategories are used for purely heuristic purposes. I will present the dialectical
interpretation of DHM offered by Karl Marx, Jorge Larrain, Derek Sayer, and Bertell Ollman,
and show how it provides a superior method into understanding imperialism than positivist
methodologies. This will provide the methodological foundations for a critical reconstruction of
imperialism that will take place in chapters 4 and 5.

**Mainstream Social “Science”**

A major contribution of dialectics to the social sciences is that it challenges the methods
traditionally used in IR. Dialectics “restructures our thinking about reality by replacing the
common sense notion of ‘thing’ (as something that has a history and external connections to
other things) with notions of ‘process’ (which contains its history and possible futures) and
‘relation’ (which contains as part of what it is that ties with other relations)”.

This focus on relations and process distinguishes most Marxist approaches from traditional positivist
approaches to the social sciences. As discussed in chapter 1, positivist political science is used by
both realists and liberal internationalists. Although not all IR scholars who are realists or liberals
are positivists, the epistemology has had a considerable influence on each of these schools,

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particularly in America.\textsuperscript{90} Dialectics are a significant contrast to positivist assumptions about ontology. Rather than abstracting concepts from their historical and social origins and reifying them for purposes of comparison, dialectical thinkers see the world as an evolving whole. This entails a different method of social research, which will help to construct an alternative theory of imperialism from those offered in IR.

Positivism is a programme that advocates the application of some of the methods of the experimental natural sciences to the study of the social world. It stresses observation, quantification and hypothesis-testing and, since it relies on a regularity theory of causation, argues that explanation and prediction are necessarily coterminous.\textsuperscript{91} Positivists believe there are objective and timeless laws at work in the social world regardless of the normative or subjective biases of the observer, and that the purpose of scientific research is to discover and document them.\textsuperscript{92} Positivism has left an impact on the research agendas in American IR and also on the basic concepts used in the field. So while scholars in IR may disagree over a great many things, there is a broad epistemological, methodological and ontological consensus in the study of IR in the US. Martin Hollis and Steven Smith argue that:

\textit{[t]he growth of International Relations as a discipline has been much influenced by ideas of science... A shared concept of scientific explanation is a unifying theme among Realists (and Neo-Realists) who are otherwise divided on, for instance, whether to pitch the explanation at the level of the system or its units... Even current theories, which break


\textsuperscript{91} Martin Hollis and Stephen Smith, 12.

\textsuperscript{92} Ibid., 46.
with the mainstream over non-state actors, usually retain the claim to offer scientific explanations. [Emphasis in original]

There has been an appropriation of a particular image of science in International Relations. Positivists follow a narrow methodological interpretation in order to conduct social research. This rigidity leads to a broad consensus in IR over both methodology and ontology. Thus in a discussion on imperialism it is not uncommon for positivists to discuss similar variables such as the state, the military, or direct forms of political control, regardless of context. The purpose of focusing upon observable phenomena is to find patterns that can be empirically tested regardless of the economic or technological level of development of a society. Differences are ignored in favour of abstract theories.

One considerable distinction between positivist approaches and dialectical approaches to social research is the process of abstraction: moving concepts from the specific to the general, then back to the “real concrete”. While abstraction is a part of both methods, the difference between the two is what concepts can be abstracted and how generalizable are specific theories. On the one hand, “the task of a scientific theory [according to positivists] are to abstract, to generalize, and to connect. Abstracting is a matter of grouping together events, situations, or objects which are not identical... generalizing is a matter of saying what else things identified by the same concept have in common, not as a matter of logic but as a matter of fact”. It is the

93 Hollis, 45.

94 It’s worth noting that this image of science isn’t actually used in certain areas in the natural sciences, particularly in the area of theoretical physics and astrophysics. There is a much larger role for unobservables in the natural sciences than are often allowed for in most social science research. See: Simon Blackburn. “Scientism” The Oxford Dictionary of Philosophy. (Oxford: Oxford University Press, 2005).

95 Hollis, 61-62.
explicit purpose of the sciences to find a causal connection between an independent and dependent variable to find generalizations. The work of abstraction then is to go from a specific incident or phenomenon to make a larger inference that connects a cause to an effect in order to make a generalization. The hope of positive science is that generalizations will have a high predictive probability. Positive science seeks to replicate the methods of the natural sciences. In the natural world, this method has been successful in advancing many fields of study, but this success is largely predicated on control, replication, and falsification. In the social sciences the similar conditions necessary for prediction do not exist, yet the similar methodology used in the natural sciences continue to be used to measure social phenomena.

The social world differs from the laboratory settings of the natural sciences, yet according to positivist scientists, the same methodological framework must be used. For example, one of the key requirements of building generalizations in the natural sciences is replication of phenomena to test the causality of a variable for falsification. This is a near impossibility when dealing with social phenomena: even similar events such as the first and second world wars have considerable variations such as the leaders, the role of nationalism, and the technological level of military development. Yet regardless of these problems, the main method for social science seeks to replicate that of the natural sciences leading to simplifying historical events. As King, Keohane and Verba in their well-regarded book on method argue, “[w]here possible, analysts

There are considerable similarities in the alliances in the two world wars, yet the differences are quite stark upon examination. For example, the role of Nazism an ideological force, and Adolf Hiter’s leadership, led to many counter-systemic actions by the Germans, particularly on the Eastern Front. This marked a considerable distinction between the First World War, where the German general staff recognized the futility of the German offensive after the summer of 1918 and were willing to negotiate a surrender. Furthermore, the technological development of atomic weapons by the war’s end, led to the defeat of Japan without a military invasion – an event not possible during the First World War. For a more thorough examination of the considerable differences of the two world wars, see: James L. Stokesbury A Short History of World War II. (New York, Harper Collins, 1980).
should simplify their descriptions only after they attain an understanding of the richness of history and culture. Social scientists may use only a few parts of the history of some set of events in making inferences”. Here we have a major problem in mainstream social science: the method takes paramount importance. History is decontextualized and fragmented for the purposes of research. So while the researcher may have a deep understanding of history and culture, the research that is produced presents the opposite: a series of events abstracted from their context. The methodological “rigour” of positive social science views abstraction and generalization as the main purpose of conducting social research. This use of history as a catch-all for the purposes of case studies has significant implications for the literature on empire.

The search for a general theory of empire has led to the abstraction of history from context. When history is used in such a manner, contemporary theories of empire lack a dynamic understanding of how the modern forms of empire differ across time. Dramatic differences between cases are ignored completely to find transhistorical generalizations. Benjamin Cohen exemplifies a common idea of mainstream IR, and argues in favour for an abstract theory of imperialism and empire:

[E]vidence is strong that a single theme does explain each major variation. That theme... is “the good old game of power politics’... I suggested that the condition of international inequality has been actively affirmed by dominant nations because of the strategic needs of the state, not the commercial or financial needs of private business. Cohen’s argument exemplifies the major methodological problems of the mainstream literature.

There is the need to find a generalized theory of empire that can be empirically tested throughout

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history regardless of context. Cohen gives a theoretically sparse definition of empire that lacks context and nuance, common in the positivist literature – the terms are emptied of all but the smallest context. The ‘strategic needs of the state’ that lead to ‘international inequality’ do not provide any information about the conditions in which the inter-state competition takes place, nor the quality or type of economic inequality between states. Cohen’s indifference towards the context in which an empire takes place presents a vacuous understanding of particulars; generalization has been favoured at the expense of enriching and insightful detail. This is of relevance in the contemporary case of the United States. This generalization ignores the central role of the economy and production to the nature of American power as well as the unique features of the American experience. This, however, is done so that the conceptual framework can be generalized in order to present to political scientists a model for comparative historical analysis.

The behavioural tendency to ignore context and historical contingency in order to isolate key variables for empirical testing and comparison leads to abstract transhistorical comparisons. Munkler exemplifies this common method in his analysis:

Certainly the empire of the Russian Tsars and the Ottoman and Chinese empires – imperial powers of the longest duration – must be included in a comparative analysis. Nor should the Mongol empire of the thirteenth century be overlooked in an investigation of the logic and imperatives of empire... it was surpassed only by the British empire, which at its height encompassed 38 million square kilometres but stretched over 5 continents.99

This analysis of empire creates an interesting paradox: initially it appears history is taken seriously in a comparative analysis as numerous empires are examined, yet the method ignores the specific historical context and significant differences from case to case. As in the works of

Munkler and Benjamin Cohen show, historical cases of empire serve as means to increase the number of observations for a generalizable theory. The method takes priority over history. While it is possible to draw comparisons between the archers of the Mongol empire and the advanced modern US military, a general theory will entirely ignore the somewhat significant technological changes of the past 800 years between the two cases. In short, the unique, contingent, histories that led to the rise and perpetuation of each empire are ignored in order to create an ahistorical theory. This is most evident in the work of Benjamin Cohen whose main purpose in his research is to find a “general theory of empire”. While it is possible to find a general theory, it ignores the historical specificities of each case.

The inability of mainstream IR to understand the American empire is due to the influence of one of its major theories, structural realism, which at least notionally claims to be scientific. Kenneth Waltz’s seminal text, Theory of International Politics, is one of the most prominent theories in international relations. There are several assumptions about the international system and empire that originate with Waltz’s theories: one of the principal assumptions is that the structure of the international system can explain why dissimilar actors act in similar ways. Although not intended to explain the foreign policy of a country, Waltz argues that the structure of the international system creates the conditions to act in a specific way regardless of context. Waltz’s theory ignores the distinct features of each country by favouring structural explanations for the actions of states. An implication being that in a similar situation, any state would act in the same way. Though systemic explanations are not just common among realists, an implication of Waltz’s theory is to place emphasis at the structural level at the expense of the domestic

\[100\] B. Cohen, 229.

politics.\textsuperscript{102} Structural accounts of the state in IR largely ignore domestic factors, culture, history, and political institutions. Realists examine the international system, but fail to take the next step: re-examining concepts in their unique social context. Although theories of realism have evolved since Waltz, the impact of his theory and positivism in general on realism and international relations is undeniable.

Positivism leads to another problem when trying to understand the United States. If America does not conform to the framework of an empire established by IR scholars, then the term ‘empire’ will be rejected outright to describe the United States. Many scholars reject the term because the United States does not explicitly control any other state’s government, it does not have a standing army occupying another country, nor does it lack internal democratic controls. Yet in many respects this ignores the many ways in which the modern-day United States uses its military and economic power to dominate and exploit other countries. Modern empire and imperialism have evolved and so too must the concepts used to understand them. A discussion of the United States as an ‘empire’ serves both a descriptive and normative goal of criticizing the actions of the United States. Alternative terminologies can ignore or downplay the problematic domestic and foreign policies of the United States. Thus there is a major problem with positivist approaches to empire when examining the United States. It is the goal of this thesis to show how an alternative approach using DHM can provide greater insight into ways in which the United States is an empire, and how traditional concepts associated with imperialism must be re-examined in their contemporary context.

\textsuperscript{102} Structural explanations of outcomes are common among scholars in the critical tradition as well. One example of such is Marxists literature where many scholars commonly focus on the structure of the capitalist system to explain the actions and choices of individuals. See: John Agnew. \textit{Hegemony: The New Shape of Global Power} (2005, Temple UP).
**Dialectics: Rethinking Social Science and Imperialism**

Marx’s method presents an alternative method of thinking about social reality, one that examines relations rather than causes, and the concretization of concepts rather than fetishistic abstraction. Ontologically for DHM it is impossible to conduct social research without an examination of social relations. For positivists, entities are related to each other, but only externally, in a causal sequence. For dialectical thinkers such as Marx, in contrast, relations are internal. According to Ollman, Marx’s method:

> treats relations in which anything stands as essential parts of what it is, so that a significant change in any of these relations registers as a qualitative change in the system of which it is a part. With relations rather than things as the fundamental building blocks of reality, a concept may vary somewhat in its meaning depending on how much of a particular relation it is intended to convey.\(^{103}\)

A concept will often vary depending on its historical context and relations. A concept in one particular historical period may have dramatically different significance in the modern period. For example, though markets have existed throughout history, the unique technological developments that have linked together time and space now means markets are global and move at an unprecedented pace. Positivism erases these distinctions for the exclusive purposes of constructing transhistorical generalizations. The unique cultural, economic and geopolitical context of the United States must be considered when making historical comparisons. This does not eliminate historical comparison, but requires a greater understanding of the unique characteristics of a process at it occurs during a particular time period. A dialectical approach

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\(^{103}\) Ollman, 5.
seeks to properly contextualize many concepts that are often reified when associated with empire, such as power, control, influence, the state and the international system.

Dialectics alters the way of thinking about conceptual boundaries of units of analysis. This presents an alternative way of theorizing about the subject and object of social science research. Positivists assume through observation timeless social laws can be reached regardless of time and space. Alternatively, a dialectical approach suggests:

The qualities we perceive with our five senses actually exist as part of nature, the conceptual distinctions that tell us where one thing ends and the next one begins both in space and across time are social and mental constructs. However great the influence of what the world is on how we draw these boundaries, it is ultimately we who draw the boundaries and people coming from different cultures and from different philosophical traditions can and do draw them differently.  

Ollman’s assertion is that there is an inseparable relationship between ontology and epistemology. This is not an original argument as perception provides a foundation for knowledge of the world. DHM suggest the relationship is reflexive: epistemology and ontology are interrelated with history and culture informing common concepts of social reality. Dialectics assume ontological boundaries are not ‘out there’ waiting to be examined, but will vary depend on the time and context. Epistemology then plays an important role in ontology- the two are interrelated with the natural and social world informing knowledge and vice versa.

Dialectics can be used to help understand the variety of relations in a process. Ollman identifies four main kinds of relations that dialectics help to uncover: identity/difference, interpenetration of opposites, quantity/quality, and contradiction. Identity/difference assumes

104 Ollman, 13.
106 Ollman, 15.
that concepts of analysis may appear to be the same depending on how they are viewed but also possess qualities that make them different. For example, economists make distinctions between rent, profit, and interest; Marx asserts they all are processes that have their origins in extracting surplus-value.\(^{107}\) Similarly, concepts that may appear to be the same, such as the market, may be different depending on their social and cultural context. This necessitates concepts must be examined within their social context. DHM seeks to show how either similarities or the difference may be neglected by conventional methodologies. Thus concepts will vary depending on their relations and how they are experienced.

The social world is constantly changing and requires that concepts must be constantly re-evaluated due to their evolving relations. With a dialectical approach, the search for causes, a common goal of mainstream political science, is impossible due to a holistic and interrelated ontology. The purpose of DHM is to uncover the relations that determine appearances rather than causal transhistorical laws. Sayer argues:

Marx’s argument, then, is about how the law, state and religion and so forth should be conceived. It is not, or at least not primarily, about their causal status – determinate or determined – in history. That they are denied causal primacy is a consequence of Marx’s prior denial of their very separability. If they cannot in themselves determine or explain historical development, this is because they have no separate existence in themselves.\(^{108}\)

Rather than isolating a variable for the sole purpose of comparison, a dialectical approach recognizes that concepts cannot be properly conceptualized independently from their social context – concepts bear the mark of their unique sociology. Since social concepts cannot be separated from its context, then a dialectical approach will be both holistic, that is starting at structural level. This will make a contemporary analysis of imperialism distinct from positivist

\(^{107}\) Ollman, 15.

accounts. Concepts associated with imperialism, such as military power, liberalism, and economic power must be investigated in terms of the way they are shaped by their specific historical context.

Concepts thus require contextualization in order for their meaning to be fully understood. Marx emphasizes the elasticity of concepts and how they depend upon their sociological context in order to ascertain their meaning and prevent meaningless abstractions:

In the first place, I do not start from ‘concepts’ and hence do not start from the ‘concept’ of value, and therefore do not have to ‘divide’ the latter in any way. What I start from is the simplest social form in which the labour product is represented in contemporary society, and this is the ‘commodity’. I analyse this, and indeed, first in the form in which it appears. Here I find that on the one hand it is in its natural form a thing of use, alias a use-value, on the other hand a bearer of exchange-value, and in this respect itself ‘exchange value’. ¹⁰⁹ [Emphasis in original]

Marx moves beyond mere appearance and seeks to uncover unobservable processes that determine how the commodity is formed in a contemporary context. ¹¹⁰ Thus for social research to take place using DHM, a historical and contextual examination is necessary. Of significance is the experiential quality in Marx’s analysis. Though this has been elaborated upon on greater detail elsewhere, ¹¹¹ the purpose of starting with the social is to concretize research to avoid egregious abstractions and generalizations. This of course challenges the idea that concepts can be used exclusively for transhistorical comparison in order make predictions. As Marx states,”...the essence of man is no abstraction inherent in each single individual. In reality, it is


¹¹⁰ The dual and contradictory nature of the commodity serves as the starting-point for Marx’s analysis in the seminal text Capital.

the ensemble of the social relations”.\footnote{112} For Marx, humans are not merely units of analysis that exist \textit{a priori} society (as often conceived in liberalism), but must be examined in their social circumstances. This of course places the utmost importance on history in order to properly contextualize concepts to evaluate their similarities or differences in a particular era.

The interpenetration of opposites recognizes that how things and people function varies depending on the surrounding conditions.\footnote{113} For example, defeat in war may be viewed in one country as a source of embarrassment. Yet a different people may view a defeat as a rallying cry – source of solidarity and unity. An event may lead to a different or opposite effect at a different point in time or viewed by different people.\footnote{114} As Ollman suggest, “the notion of the interpenetration of opposites helps Marx to understand that nothing—no event, institution, person or process—is simply and solely what it seems to be at a particular place and time, that is situated within a certain set of conditions”.\footnote{115} There contains the possibility of the opposite outcome or interpretation depending on when and how a concept is viewed. Since concepts cannot be understood independently from their relations, the interpenetration of opposites for DHM necessitates a broader holistic approach to understanding the relations between concepts and their environments. Sayer argues:

Marx did not conceive of social reality atomistically, as made up of clearly bounded, separate, interacting entities: the kind of analytic particulars which can be grasped in clear, consistent and exclusive definitions. He saw the world rather, as a complex

\begin{itemize}
\item \footnote{113} Ollman, 18.
\item \footnote{114} Ollman, 18.
\item \footnote{115} Ollman, 19.
\end{itemize}
network of internal relations, within which any single element is what it is only by virtue of its relationship to others.\footnote{Sayer, 19.}

This is both a significant ontological and etiological split from logical positivism. Sayer’s interpretation suggests the objects of social analysis cannot be known independently of their sociological context. This is a distinct contrast to positivist ontology which assumes that the world can be objectively observed and categorized. For historical materialism, no concept is autonomous from its relationship to everything else, and thus the method necessitates a broader holistic approach to understanding the interrelationality between concepts and their environments. There is no ‘outside’ or ‘objective’ essential truth to complicated social phenomena - unlike the natural world where laboratory conditions can exist and control and replicability are possible. In the social world it is methodologically impossible to slice up the world into coherent stable units that can be observed regardless of time or location.

DHM seeks to uncover these essential relations that exist beneath mere appearances. Marx makes a clear distinction between the reliance of pure observation commonly done by social sciences and the materialist dialectical method:

If I state that coats or boots stand in relation to linen because the latter is the incarnation of human labour, the absurdity of the statement is self-evident. Nevertheless, when the producers of coats and boots bring these commodities into a relation with linen, or with gold or silver ... as the universal equivalent, the relation between their own private labour and the labour of society appears to them in exactly this absurd form. The categories of political economy consist precisely of forms of this kind. They are forms of thought which are socially valid and therefore objective, for the relations of production belonging to this historically determined mode of social production.\footnote{Karl Marx *Capital Volume 1*. (Chicago, C.H. Kerr & company, 1909-1910): 169.}

The “objective” views on a particular issue will always be partially determined by the social context – in the contemporary world this means bourgeois categories will shape the thinking of
most scholars. Marx’s analysis of appearance and reality has a great deal of similarity with critical realists.\textsuperscript{118} Marx seeks to uncover mechanisms that, if they exist, explain how things are observed. The ontology then is relational, with objects requiring contextualization in order for their social significance to be understood. Consequently, this influences the method of social research. Since common categorizations are historically contingent, the appropriate method requires a recognition that concepts are constantly evolving.

The relation of quantity/quality is related to the interpenetration of opposites. The quality/quantity distinction suggests a process contains moments of before and after, so that it contains a part of its past as well as its possible future.\textsuperscript{119} Every process has some element of its history, so for an example, capitalism contains some remnant of its feudal origins and landed aristocracy, yet at the same time, it presents a myriad of possible futures. Ollman elaborates on the method for this historical transformation:

Initially, movement within any process takes the form of quantitative change. One or more of its aspects – each process being also a relation composed of aspects – increases or decreases in size and number. Then, at a certain point – which is different for each process studied – a qualitative transformation takes place, indicated by a change in its appearance and/or its function.\textsuperscript{120}

A social process is the sum of numerous historically and socially contingent and interlinked relations, with each relation within the process containing some aspects of where it came from and where it possible for the process to transform into. Change in one relation may at a certain point in time be inconsequential to the overall process, yet their accumulation (a quantitative change) can, at certain times and places, lead to a critical mass and an overall transformation of

\textsuperscript{118} Ollman, 173.
\textsuperscript{119} Ollman, 16.
\textsuperscript{120} Ollman, 16-17.
the process (a qualitative change). For example, on the topic of empire, one challenge to the American military in Iraq may not pose an overall threat to the stability of the region, but eventually the insurgencies may destabilize the country and challenge the policies of the United States. At a certain time and in a certain place, minor modifications of a relation will not necessarily lead to a transformation of the process in its entirety. However, the time and place of the transformation of a process is contingent and not predictable beforehand.

The quality/quantity relation can provide insight into the possible future of a process. A process contains what is possible in the future. For example, feudalism had some aspects of proto-capitalism in it – there were small scale shops and producers that engaged in banking and trade - but over time changes in accumulation techniques led to an entirely new mode of production.121 Sometimes these changes will be incremental, while at other times it will be violent and revolutionary. The understanding of quantity/quality is that a process can provide some understanding of its potential future. Marx used this part of dialectics to help envision a potential future for people. He saw within capitalism a possibility for revolutionary change towards socialism arising from the consciousness of the working class. Marx hypothesized workers would lead, when certain conditions arose, to a qualitative transformation in the capitalist system.122 This has yet to come to pass, but the methodological insight allows for a way to analyze the future of a process by looking for places where enough quantitative changes can lead to a qualitative transformation. This method will be used in a later chapter when discussing “imperialism today”, but suffice to say, contemporary imperialism contains numerous

possibilities for the future. Some relations in the process of imperialism are, of course, violent and exploitative, such as the privatising of public services or austerity measures. Yet imperialism can bring liberation through spreading technology and building a transnational social consciousness on issues like global warming, infectious disease and poverty. Contained in the process of imperialism is a series of relations that while mostly harmful, also show an alternative possibility of emancipation.

Of importance for DHM, and Marx’s criticism of capitalism, is the recognition of contradiction and conflict in the transformation of society. As Ollman argues,

Contradiction is understood here as the incompatible development of different elements within the same relation...their paths of development do not only intersect in mutually supportive ways but are constantly blocking, undermining, otherwise interfering with, and in due course, transforming one another.\textsuperscript{123}

A process contains many contradictory relations within it. Marx understands that incompatibilities arise in larger social and economic processes. Capitalism is often discussed in the works of Marx as containing many contradictions. These for a time may not come into conflict, but due to their inherent irreconcilabilities and given the correct circumstances, they may lead to revolution and transformation. DHM recognizes a process may contain numerous contradictory relations that constantly interact with each other. Change is understood not in terms of cause and effect, but in terms of constantly evolving and, at times, contradictory historical movements. Similar to quantity/quality, contradictory relations contain historical possibility. A process often comes into conflict when their contradictions can no longer be appropriately managed or controlled. Governments and corporations try to manage contradictions contained in

\textsuperscript{123} Ollman, 17.
the system of production – the most recent example of the financial crisis is but one of a larger series in the recent history of capitalism.

For it to be possible to understand these various relations associated with imperialism, Marx argues that an analysis must focus on the real concrete as opposed to historically abstracted concepts. The emphasis on the concrete, or history in particular, serves initially as an ambiguous guideline for social research, but Sayer offers some clarification into its importance as an analytical starting point:

Marx’s historical categories, the ones he grasps as ‘real historical stages of production’ are generated neither from ‘simple abstractions’ in general nor from transhistorical categories in particular. They are emphatically a posteriori constructs arrived at by abstraction from the ‘real and concrete’. Marx has no mysterious starting point. Like the rest of mankind, he starts from the material reality of ‘what is given, both in the head and in reality’; the phenomenal forms of our everyday experience.\footnote{Sayer, 102.}

Although Marx is somewhat unclear about how to separate the ‘real concrete’ from other phenomena, for at least the purposes of the analysis of imperialism this thesis will examine how concepts can be understood relationally by unpacking their various determinations. The emphasis on materiality of DHM serves as a starting-point for analysis – how other concepts relate to the material foundations. So the point of departure for DHM is the system of production -the advanced form of capitalism -to assess how the American political system deals with its role in the global capitalist system and its various determinations and linkages. An examination of imperialism will require understanding the economic and military/industrial complex both internationally and domestically. From there, it is necessary to criticize the rhetoric used to justify imperialism (liberalism, exceptionalism, etc.). Furthermore, there must also be some
consideration of internal pressures, such as the Tea Party and Congress, and lobbyists. All of these facets of imperialism serve to concretize the concept in its unique American context, avoiding the misstep of problematic abstractions.

The purpose of examining the real concrete is to avoid the variety of missteps taken by the conventional literature on empire. This method is used throughout Marx’s work to examine how reified objects, in fact, have a whole series of historically contingent relations. Marx discusses in detail the appropriate method to undertake social research and the problems of conventional methods:

The economists of the seventeenth century, e.g. always begin with the living whole, with population, nation, state, several states, etc.; but they always conclude by discovering through analysis a small number of determinant, abstract, general relations such as division of labour, money, value, etc. As soon as these individual moments had been more or less firmly established and abstracted, there began the economic systems, which ascended from the simple, such as labour, division of labour, need, exchange-value, to the level of the state, exchange between nations and the world market. The latter is obviously the scientifically correct method. The concrete is concrete because it is the concentration of many determinations, hence unity of the diverse. It appears in the process of thinking, therefore, as a process of concentration, as a result, not as a point of departure, even though it is the point of departure in reality and hence also the point of departure for observation and conception.125

Starting with its concrete form, a material thing exists in a particular mode of production but must be historicized and contextualized in order to uncover its relations. Marx’s method is then to go from the real concrete to discover the essential relations that, if they exist, determine how things appear. From there, the concept is abstracted to the system level. The method is intended to understand the variety of determinants of a process and to move beyond simple appearances.

The ontology of mainstream social science relies upon observation in order to examine social

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reality. DHM recognizes there is a double hermeneutic process at work – the observers of phenomena imbue social reality with their values, making mere reliance of observation laden with individual bias. Marx believes there is a reality out there to be researched, but DHM seeks to move beyond observation, which may be value-laden, through a dialectical examination of relations rather than things. Historical materialism is committed to an empirical analysis of the world through the use of dialectics. One of the purposes of DHM is a re-evaluation of what is considered “scientific” explanation: Marx seeks to show how observable concepts are conceptualized in a historical context by uncovering how the interpenetration of opposites, depending on when and how they are viewed, determines appearances.

A dialectical approach differentiates historical materialism from others in the social sciences and provides an alternative method of empirical research. First, concepts have to be understood contextually in their phase of history. Marx examines concepts that are traditionally viewed in the social sciences as transhistorical and uncovers how they are experienced in particular contexts. There is a process of abstraction at work, but Marx’s method then goes from abstract concepts back to the real concrete to reconstruct the more important determinations. There have been numerous other empires throughout history – and they can serve as meaningful guide for concepts. But where an analysis using DHM differs is by taking those generalized concepts and placing them in their historical and social context. There may be similarities that can be used for comparison, but the changes in culture, economic development and political institutions must be considered with greater depth and understanding from conventional social science. Secondly, concepts have to be examined relationally in order to understand their various determinations. This can best be done through the study of the history

126 Sayer, 101.
of the United States for empirical foundations and an examination of both the mainstream and
the critical literature in IR for concepts. While both literatures offer an incomplete assessment of
imperialism according to the method of DHM, I still believe they can provide valuable insights.
DHM poses an alternative method to assess imperialism, from abstracted transhistorical concepts
to examining the particulars of United States. This entails a dialectical approach, looking at
imperialism as a series of relations and processes rather than a thing reified in time.

**History and Materialism: Not Just Another Observation**

Marx examined capitalism as his main object of study using historical materialism. The
purpose of this thesis is to operationalize the method in order to examine imperialism in a
contemporary context. Though the later chapters will provide an examination of capitalism,
DHM will also offer insight into the American state and its institutions. Marx did place a great
deal of methodological importance on production. This does not mean that an analysis using
DHM will focus exclusively on the capitalist system, however. Sayer argues that “Marx provides
a secure basis for the construction of his historical categories. Each such category is grounded in,
and its applicability determined by, his analysis of essential relations”. ¹²⁷ Historical categories
are the culmination of the underlying essential relations of a time period. Though relations and
process vary from society to society, and depend on technological levels of development, an
important essential relation common to every society regardless of time and location is
production. The purpose of this section will be to examine the role of material production for an
analysis using DHM. This will be of importance for the analysis of imperialism in the later

¹²⁷ Sayer, 145.
chapters. Though many Marxists often focus exclusively on production and capitalism as the causes of empire and imperialism, for DHM, capitalism serves as one of many driving factors of imperialism. Capitalism is not meant to serve as the sole explanation for the policies of the United States or any other country for that matter, but the focus on production is meant to provide a methodological foundation for an analysis.

Production serves as unifying methodological basis for the examination of a society and will be the starting-point in later chapters for my analysis of imperialism. Obviously production varies between and within societies, but every society must produce material goods in order to perpetuate itself. On an individual level, every human being must eat, work and breathe. And while the quality and conditions of labour vary across time and space, production serves as an important essential relation in every society. Marx argues:

The production of life, both of one’s own in labour and of fresh life in procreation, now appears as a double relationship: on the one hand as a natural, on the other as a social relationship. By social we understand the co-operation of several individuals, no matter under what conditions, in what manner and to what end. It follows from this that a certain mode of production, or industrial stage, is always combined with a certain mode of co-operation, or social stage, and this mode of co-operation is itself a “productive force.” Further, that the multitude of productive forces accessible to men determines the nature of society, hence, that the “history of humanity” must always be studied and treated in relation to the history of industry and exchange.128

Every human being must labour – in some way or another – in order to survive. Labour may vary depending on the context in important ways: how individuals labour, the levels of sophistication and technological development, the time spent working, the amount of compensation. What does not vary between societies is that people must labour in order to live and reproduce. Production then can be used to examine the other processes in a society, such as the formation of the state,

gender and race relations. At times the role of production will be a major determinant of other processes in a society, at other times it will not. The manner in which individual labour takes place is dictated by historical development of social conditions and norms.

Social relations are situated in material conditions and the level of economic development. In the case of America, capitalism has a substantial role in shaping the social relations of the United States as well as the actions of individual Americans. The United States has since the end of the Second World War been the dominant country in the western capitalist system. America as the central network in the economic system has influenced both the domestic character of American society, as well as shaped the development of capitalism. The Americans have promoted more open and competitive markets rather than formal empires, like the British and French. Moreover, American culture has become global, with American television, Hollywood and advertising now a global phenomenon. This relationship between the United States and capitalism will be best examined using dialectics with production as a methodological guide. This, of course, does not imply an economic deterministic model of historical development, such as the one suggested by G.A. Cohen, but rather a complex relationship between production, culture and social systems.

DHM offers an alternative interpretation of many concepts that are commonly associated with Marx’s method. Many theories of historical materialism, like that of G.A. Cohen, have been influenced by positivism and have an explicit goal to find a causal relationship between the economic base of a society and the legal/intellectual superstructure. As discussed in greater

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130 G.A Cohen, 218.
detail earlier, a dialectical method does not approach the social world as having definitive causal relations. Consequently, concepts that are commonly used transhistorically in positivist interpretations of historical materialism, such as productive forces, or productive relations, must be placed in their appropriate and specific historical context. The productive force of a society may vary depending on a variety of cultural, economic and historical determinants. Economic production, the primary explanation for the progress of society by G.A. Cohen, is not the exclusive “cause” of the superstructure, nor is it exclusively an economic or technological phenomenon, as we have already seen. DHM is not an overarching account of how society develops, or not a theory of where capitalism will develop towards, but a method of examining history. As Sayer argues, “if the key general concepts of historical materialism are necessarily empirically open-ended and multi-referential, they cannot then officiate as the building-blocks of an overarching ‘theory of history’”. According to DHM, universal concepts such as labour and production are necessarily open-ended and historically contingent. The method is used as a guide to study these concepts and their relations rather than a theory of historical development.

The emphatic critique of the transhistorical generalizations used by positivism makes Marx’s method one of the most in-depth criticisms of the use of the method of the natural sciences on the social sciences. Engels examines the topic of political economy with insights that can easily be transferred to methodology:

Historical science must first investigate the special laws of each separate stage in the evolution of production and exchange, and only when it has completed this investigation will it be able to establish the few quite general laws which hold good for production and exchange considered as a whole… But anyone who wishes to bring under the same law

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the political economy of Tierra del Fuego and that of modern England can produce nothing but the most vulgar commonplaces.\textsuperscript{133}

Studying the social sciences differs from both the scope of their analysis and in the ability to make generalizations. Any generalizations that can be made about a particular stage of history are context specific and require a considerable level of analysis of a society; otherwise they will not show any insight about a particular case or phenomena.\textsuperscript{134} Even the generalizations that can be made about a specific historical period depend on contingent factors that may not always be present. Historical materialism, then, assumes greater caution with generalizations, requiring that abstractions be concretized in order to understand their social significance.

Marx places particular importance on the development of productive forces as an important step towards a scientific analysis of a social process. This scientific analysis must be both historical and material in order to uncover the dialectical relations of a process. Marx elaborates upon this in \textit{Capital}:

A critical history of technology would show how little any of the inventions of the 18th century are the work of a single individual. Hitherto there is no such book. Darwin has interested us in the history of Nature’s Technology, i.e., in the formation of the organs of plants and animals, which organs serve as instruments of production for sustaining life. Does not the history of the productive organs of man, of organs that are the material basis of all social organisation, deserve equal attention? And would not such a history be easier to compile, since, as Vico says, human history differs from natural history in this, that we have made the former, but not the latter? Technology discloses man’s mode of dealing with Nature, the process of production by which he sustains his life, and thereby also lays bare the mode of formation of his social relations, and of the mental conceptions that flow from them. Every history of religion, even, that fails to take account of this material basis, is uncritical. It is, in reality, much easier to discover by analysis the earthly core of the misty creations of religion, than, conversely, it is, to develop from the actual relations of life the corresponding celestialised forms of those relations. The latter method is the only materialistic, and therefore the only scientific one. The weak points in the abstract


\textsuperscript{134} G. A. Cohen.
materialism of natural science, a materialism that excludes history and its process, are at once evident from the abstract and ideological conceptions of its spokesmen, whenever they venture beyond the bounds of their own speciality.135

Technology and production serves as the basic point by which to glimpse at other social relations. Technology alters the way people work and the relations of production – who owns and controls the means of production and who labours. Production is connected to all other aspects of social life – people in every society must eat, work and reproduce. Also, technology is an important determinant in other facets of society, whether it is gender relations, economic class disparities, or race relations. For example, technological progress in contraception in the 20th century has had a dramatic impact on women’s empowerment. Though technological change may not explain every advance for women, it does serve as a starting-point. Capitalism connects disparate people together in a production chain. People who might not otherwise meet may share the part in the production of a single commodity. The development of complex system of production like capitalism makes DHM a holistic method, focusing on the world system. And while the conditions and specificities of the manner of that labour differ across time and space, the tendency of people to labour in a system of production serves as a unifying methodological point of origin. The history of material form of production serves as the start of what Marx considers to be the scientifically correct way to examine society.

Production is a methodological starting-point for a dialectical approach to understanding the historical development of a society and is of central importance in differentiating historical periods. Marx placed analytical importance on capitalist forms of production for a reason: it relates to both political and economic power. The contemporary condition of global capitalism

135 Marx, *Capital Volume 1*, 492.
and how it relates to empire must be given cautious consideration given the constantly changing and developing process of both capitalism and imperialism:

From the fact that historical materialism must start its analysis with capitalist production it does not follow that necessarily follow that it should be confined to capitalism.\textsuperscript{136}

Thus we have the initial methodological proposal that historical materialism must begin with an analysis of the system of production. Larrain elaborates upon this point:

In order to understand a society it is necessary to look first of all at the process of production, the process whereby individuals transform nature which is simultaneously a co-operative process… historical materialism starts with the analysis of the capitalist mode of production from which it can develop the necessary concepts and insights to analyze other modes of production.\textsuperscript{137}

So according to DHM my analysis will place methodological importance on the system of production –capitalism- but from there will examine the determinants that lie between production, individuals, history and culture. The point here is not to place causal primacy on capitalism as many positivistic interpretations of Marx’s method seek to do,\textsuperscript{138} but to use the system of production as a guiding thread to understand the relations. I expect at times that capitalism will be the driving force behind the expansionist tendencies of the American state, while at other times ideology or the demands of internal interest groups may be the determining factor. DHM makes no such claim at causation but seeks to deconstruct the world as it appears to be by uncovering the variety of relations that determine a process. Larrain’s emphasis on practice –how the labour of individuals reproduces society- makes production a necessary starting-point to historical analysis.


\textsuperscript{137} Larrain, 122.

\textsuperscript{138} G.A. Cohen. x.
Summary and Conclusions

Thus far, I have provided a brief examination of the assumptions of dialectical historical materialism – the method I will use in chapters four and five to reconstruct and examine imperialism after the financial crisis. In order to contextualize DHM, this chapter provided a brief critique of the methodological shortcomings of the mainstream international relations literature. The purpose of this was to explain the dialectical method. Dialectics can provide greater insight about the relationship between economics and politics than is traditionally offered by positivist accounts. As chapter 1 argued, mainstream IR has largely been co-opted by the American state and the interests of capital. Academics are often used as ideological justification for the policies of the United States government, regardless of whether scholars identify as realists or liberals. The first section of this chapter tried to come to terms with one of the reasons why mainstream theories of empire so easily fall into this pattern, largely due to the influence of positivism on the field. This has led mainstream IR to abstract certain policies of the United States – such as America’s liberalism, human rights, freedom and promise of international security – from the larger context of violence, war, and economic exploitation. The dialectical method I have presented will present a more holistic, in depth and historically contextualized account of imperialism.

An approach using DHM will be able to examine many facets of imperialism that are traditionally ignored by mainstream accounts of empire. Though the actions of United States military are an explicit example of America’s global dominance, it is but one side of much larger process of imperialism – one that includes international institutions, trade organizations,
corporations, and cultural dimensions. The ontology of mainstream IR with its focus on the nation-state-as-actor often cannot come to grips with the multidimensional modern form of imperialism. As discussed, dialectics are ontologically holistic and relational, focusing on the world system as a whole, recognizing contradiction and change as an inevitable part of a social process. The methodological starting-point of material production immediately alters the focus of DHM from one of the nation-state to that of the capitalist system. Unlike states, capitalism is not contained in a single country; it is an uneven global system of production, distribution and accumulation. While capitalism shares many features regardless of location, it interacts with a society’s particular situation in the world system. A dialectical analysis better incorporates the system of production with history and context in social science research. A social process is contingent upon often historically unique features that interrelate with a society’s institutional and cultural circumstances. A methodological shift from causes to relations shifts research toward uncovering the myriad of determinants of a relation rather than the cause of an outcome. Dialectical historical materialism will provide an alternative, and more enriching account of imperialism than is traditionally offered in the social sciences.
Chapter 3:

Imperialism in the IPE Literature

Marxism is a revolutionary worldview that must always struggle for new revelations. Marxism must abhor nothing so much as the possibility that it becomes congealed in its current form. It is at its best when butting heads in self-criticism, and in historical thunder and lightning, it retains its strength. – Rosa Luxemburg.

Chapter 1 outlined the main empirical and theoretical problems with mainstream American IR in its discussion of the hegemony of the United States. Chapter 2 critiqued the methodological assumptions that underpin the majority of the mainstream literature on empire. From there, I proposed DHM, influenced by Marx, as an alternative method to understand imperialism. There is a long tradition in the critical literature of theorizing about empire based upon Marx’s ideas. In contrast to mainstream theories, critical theories recognize the role of production and distribution as a major determinant of political power in the global system. Theories of imperialism in IPE challenge the unequal distribution of economic resources that leads to the impoverishment and exploitation of a vast portion of the world’s population. Moreover, these theories recognize capitalism leads to periodic crisis due to contradictions in the system, requiring state intervention to prevent an economic depression.

Imperialism is often used a political way to mitigate crises: to sell excess products in new markets, to create new capital by privatizing formerly public goods, and to open up regions for capitalist accumulation.\(^{139}\) Capitalism requires political force in order to maintain and expand the system; this places pressure on governments to act in their interests. At times this can be done

through negotiation, as with the opening of China, while at other times it requires the use of military force. This reliance on violence tends to place analytical importance on the United States. Even theories that emphasize the deterritorialization of empire argue “the United States certainly occupies a privileged position in the global segmentations and hierarchies of Empire”.  

140 America has been central to the perpetuation of global capitalism throughout the 20th century, using incentives when possible and the military when necessary. However, there is a great deal of contention over the degree to which the capitalist system directs US foreign policy. This issue has become more important with the recent financial crisis and the rise of China as a major economic power. The purpose of this chapter will be to examine how the contemporary debates in the critical literature provide insight into empire and imperialism.

There are four main contemporary groupings of theories of empire and imperialism in the critical literature that will be examined in this chapter.  

141 Though the groupings have much in common, they differ in their view of historical materialism and the relation between the state and capitalism. First, there is Michael Hardt and Antonio Negri who argue capitalism is organized economically and politically along transnational lines, as a global network that supersedes nation-state sovereignty.  

142 Empire and imperialism are a harmonized process through which capitalism shapes and conditions the global multitude through networks, like the UN, the US and corporations. Thus, the main source of conflict in the international system is between networks of Empire and the multitude – the peoples exploited and regulated by Empire. The second perspective is offered by Leo Panitch and Sam Gindin, Ellen Wood, and others associated with


142 Callinicos, 16.
York University in Ontario, Canada. They share many assumptions with Hardt and Negri, but argue the United States is the global hegemon that manages and organizes international capitalism. Rather than one of a series of important networks, America is the central network of global capitalism. For them, the transformations in capitalism since the 1980s and even the recent financial crisis have enhanced the economic position of America. Imperialism is a method for global capitalists to expand markets through the use of the American government.

Another group is the “New Imperialism” scholars David Harvey and Peter Gowan. They argue the global economy has been in crisis since the 1970s, which has created a division between three main regions of economic power: Europe, North America and East Asia. Due to this continual crisis in capitalism, the US and leading capitalist states will engage in imperialism in competition for territory, markets and resources. Harvey and Gowan make a significant departure from the other groups in that inter-state conflict remains a central source of tension in the international system along with conflict between capitalists and workers. Furthermore, politicians are often motivated by other considerations than just the demands of the capitalist system, while capitalists are mainly interested in profit. Moreover, geographical, cultural, and political differences between countries can lead to inter-state competition, though this is often motivated on some level by economic demands. Finally, I will examine the work of Giovanni Arrighi. Arrighi agrees with Harvey’s position on imperialism and borrows many of his ideas. However, he departs from the new imperialism scholars in that political and economic interests are never completely distinct, but interrelate and change depending on their context. More substantively, Arrighi makes a prediction about the future of capitalism and the position of the

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143 Callinicos, 17.
144 Callinicos, 17.
United States. He argues that due to imperial practices, the United States has entered a terminal phase of decline.

I have three overall goals for this chapter. The first is descriptive: though I recognize the list of scholars I will assess is not exhaustive, it will provide a basic overview of the contemporary debate on empire and imperialism in the critical literature. At times, some theories will be examined in more detail than others. This is mainly because scholars such as Hardt and Negri and Harvey are more prolific, and their conceptual frameworks are more insightful and elaborate than others. Then I will discuss how each major theory conceptualizes imperialism and the current strength and position in the international system of the United States. Secondly, the purpose of this review is to set the stage for the following chapters where DHM will be used to examine the historical determinants of modern imperialism. Thirdly, each theory’s method and interpretation of historical materialism will be evaluated. Some critical theories have a more orthodox understanding of historical materialism, while others offer an alternative interpretation of Marx’s method. It will be my goal to not only borrow some of concepts discussed in this chapter, but also to build upon them. So rather than refuting a specific position of empire and imperialism, I hope to intervene in these debates through the use of this method in chapters 4 and 5.

**The Transnational Empire: Imperialism Without Boarders**

From this perspective, political and economic power has transcended the boundaries of the nation-state to for a transnational mode of organization. The major contributors to this position on empire have been Hardt and Negri, though William Robinson shares many of their
assumptions. Hardt and Negri published their seminal work *Empire* in 2000, toward the end of the presidency of Bill Clinton. The 1990s had been a time of unprecedented expansion of capitalism in the global economy. Without the USSR as a major competitor and with rapid adoption of free market capitalism in China, it seemed that American-style neoliberalism represented the “end of history”. Yet at the same time, conflict began to re-emerge on an entirely new level. Towards the end of the 1990s an anti-globalization movement began to gain momentum. This movement was against unfettered free markets and the neoliberal agenda of the United States government, investors and major transnational corporations. Conflict was not eliminated in the international system, but rather changed in scope.

It is in this context Hardt and Negri offered one of the most significant recent contributions to the critical literature on empire. Their theory of Empire (intentionally capitalized by the authors) brings together Marxism, American constitutionalism, and postmodernism in order to describe the economic and political transformation of states and the capitalist system. They also proposed methods to contest Empire through the global Multitude. They argue that the globalization of production has changed the nature of political sovereignty from the nation-state to a transnational juridical-political order. For Hardt and Negri, “Empire is characterized fundamentally by a lack of boundaries: Empire’s rule has no limits. First and foremost, then, the concept of empire posits a regime that effectively encompasses the spatial totality, or really that

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145 William Robinson’s book *A Theory of Global Capitalism* argues, similar to Hardt and Negri, that capitalism is now organized politically and economically along transnational lines, though for Robinson the nation-state still remains a more important agent in promoting the interests of global capitalism. Robinson’s contribution then is more of a distinction for the central apparatus that institutes empire, and not an overall independent, or divergent account.

rules over the entire ‘civilized world’.”\(^{147}\) The development of Empire is an inevitable part of human history—a sentiment lauded by almost all empires—and has expanded into new geographic territories. Previous historical empires were limited by geographical boundaries—Rome had its limits, and even the British Empire relied upon its navy to enforce its policies. Empire is a unique historical process because it is not restricted by the usual confines of a nation or city-state.

Empire has transcended the nation-state and is a process of accumulation and biopolitical production—in a synthesis of Marxist and Foucauldian thought. Empire regulates human interactions, the labour process and even social life through national and international institutions, laws and norms in order to control and exploit the labour of the global.\(^{148}\) For Hardt and Negri, Empire disciplines human life through:

a diffuse network of dispositifs or apparatuses that produce and regulate customs, habits and productive practices. Putting this society to work and ensuring obedience to its rule and its mechanisms of inclusion and/or exclusion are accomplished through disciplinary institutions (the prison, the factory, the asylum, the hospital, the university, the school and so forth) that structure the social terrain and present logics adequate to the “reason” of discipline.\(^{149}\)

Empires throughout history relied on the direct use of military force in order to enforce their whims. However, due to the deterritorialization of economic and political power, the Empire of the 21\(^{st}\) century uses a different set of institutions. Empire seeks to regulate the productive capacity of the multitude through a seemingly benign series of practices and methods. This is of course the intention of Empire—it tries to be an organic and inevitable development of human

\(^{147}\) Hardt and Negri, Empire, xvi.

\(^{148}\) Hardt and Negri, Empire, xv.

\(^{149}\) Hardt and Negri, Empire, 23.
history, rather than a system of control and violence. Yet under this guise of banality, Empire
still maintains its coercive capacity. Conflict still exists but control is now largely more
passive and internalized through institutions such as the educational system – an topic I went into
greater detail about in Chapter 1. Thus imperialism has not disappeared from the system, but
rather changed in scope through biopolitics. The imperialism of Empire then represents a
historical departure from the norm, due to its use of disciplinary institutions and social
conventions rather than direct physical coercion. Indeed, Hardt and Negri offer an alternative
method of discipline than is traditionally conceptualized in discussions of empire.

Empire is a new historical process – a series of relations that are transforming and
regulating the global economy. The United States may have a significant role in perpetuating the
contemporary capitalist system, but it is now one of many networks of Empire along with the
World Bank and the International Monetary Fund (IMF). Empire exists along transnational lines
in a series of institutions and practices that are beyond the regulation of a single government. In
Multitude, Hardt and Negri argue there are three regulatory levels: the sub-national, the nation-
state and global. Governments can, at times, enact policies to favour domestic corporations,
however the “tendency towards the formation of a global economic order is irreversible”.150
Although there may be contradictions between different levels of Empire, the
transnationalization of production and sovereignty prevents international conflict arising from
capitalism. Empire exists in a series of norms, institutions and practices that may otherwise be
ignored in a conventional analysis, such as the role of international law, multinational
corporations, the United Nations and global civil society. The United States, then, is an important

150 Michael Hardt and Antonio Negri, Multitude: War and Democracy in the Age of Empire (New York: Penguin
part of Empire, but due to the globalization of production and finance it is constrained by the overall transnational process.

With the development of a global Empire that exists beyond the traditional boundaries of the nation-state, the transition to Empire has implications on capitalist-led inter-state competition and conflict:

We [Hardt and Negri] think it is important to note that what used to be conflict or competition among several imperial powers has in important respects been replaced by the idea of a single power that overdetermines them all, structures them in a unitary way and treats them under one common notion of right that is decidedly postcolonial and postimperialistic.\(^{151}\)

The historical development of Empire eliminates inter-capitalist competition. Empire also harmonizes economic and political power under a larger transnational sovereignty. This portion of Hardt and Negri’s theory can be examined on empirical grounds. If there has been a synchronization of economic and political power, then we would expect central networks of Empire to act in the interests of capitalists. Empire’s biopolitical power regulates the actions of politicians in the United States government and eliminates geopolitical conflicts among the leading nation-states. Inter-state violent rivalries will have fallen by the wayside in favour of consensus and deference to the rule of law. If, however, meaningful international tension arises between developed states due to capitalist competition, either through the failure of major networks within empire or the reassertion of national self-interest over the interests of capital, then Hardt and Negri’s Empire may not be an accurate depiction of the contemporary international system.

Due to the transnationalization of sovereignty and political power, Hardt and Negri reinterpret Marx’s method of historical materialism to re-evaluate the base and superstructure – the relationship between production and laws and ideas. The objective of their analysis of Empire is to “go beyond the versions of historical materialism... that considered the problem of power and social reproduction on a superstructural level separate from the real, base level of production”.\textsuperscript{152} This change leads Hardt and Negri to a different method to conceptualize the relationship between the social and economic production. They assert,

the central role previously occupied by the labour power of mass factory workers in the production of surplus value is today increasingly filled by intellectual, immaterial, and communicative labour power...Precisely by bringing together coherently the different defining characteristics of the biopolitical context ... and leading them back to the ontology of production, we will be able to identify the new figure of the collective biopolitical body.\textsuperscript{153}

Hardt and Negri place considerable importance on the role of production, particularly in its immaterial form, as a major source constructing the identity of the multitude. They recognize that production has changed in character in the contemporary global system, with a considerable portion of it being immaterial or knowledge-based. Furthermore, they explain the Empire as a totalizing political force – one that reproduces itself both through economic practices and through the norms in society. An approach using DHM would largely concur with this assessment of historical materialism; the changes in production have altered the entire capitalist system. Moreover, it has not only changed how people work, but the biopolitics of Empire also shape the identities of the multitude, regulating and robbing their productive talent. Though Empire is a systemic process, biopolitics takes place at the regional or local level, making an in depth contextual understanding central to an analysis. Hardt and Negri share a great deal with

\textsuperscript{152} Hardt and Negri, \textit{Empire}, 27.

\textsuperscript{153} Hardt and Negri, \textit{Empire}, 29-30.
Ollman’s theory of internal relations, there is no “outside” to the social production and research must take into account the complexity and interconnectedness of the local with the modern global system.

The global multitude is the central group that is conditioned through the process of Empire, but it also serves as the main force of resistance and change. The deterritorialization of sovereignty and power means that the multitude is now a global transnational movement. Hardt and Negri argue that those who make up the multitude are not posed merely against the imperial system—they are not simply negative forces. They also express, nourish, and develop positively their own constituent projects… This constituent aspect of the movement of the multitude, in its myriad faces, is really the positive terrain of the historical construction of Empire…an antagonistic and creative positivity. The deterritorializing power of the multitude is the productive force that sustains Empire and at the same time the force that calls for and makes necessary its destruction.  

The multitude then is composed of many disparate groups and identities, including the working classes of a variety of nations, local green movements, aboriginal groups and women’s groups. The term “multitude” in intended to encompass a wide variety of peoples that are regulated, constrained and dominated by Empire. Empire relies on their productive talent, it requires the labour of the multitude to perpetuate the capitalist system, but the multitude is also the center of resistance.  

The globalization of sovereignty has created the conditions for the multitude to challenge Empire at a transnational level. In this way, Hardt and Negri are trying to link together the numerous anti-globalization movements that came forth in the 1990s together as a transnational political source of resistance.

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155 Ibid.
DHM has a great deal in common with the method used by Hardt and Negri. They both recognize there has been a transnationalization of production due to technological advancement that has had implications for the nature of political sovereignty. Empire provides an analysis of political power and sovereignty at the transnational level. Similarly, both Hardt and Negri and DHM recognize that empire is a constantly transforming process. Concepts must be recontextualized due to recent changes in power and production. Imperialism, then, must be appropriately contextualized to fully examine how changes in capitalism have altered state expansionism and imperialism. However, Hardt and Negri argue Empire has harmonized economic and political power at the system level, determining the actions of nation-states and eliminating inter-state conflict. This is one of the more controversial aspects of Hardt and Negri’s theory. Many other scholars in IPE argue against the decline of the state, particularly the American state, as an apparatus that serves international capitalism.

DHM makes no such assumption that political and economic power has been harmonized, but seeks to uncover the internal relations between politics and economics. Although production is now global, it is not necessarily true that political sovereignty has made a similar transition. In fact, it may be possible that political authority remains at the national or regional level despite the globalization of capitalism. Both understand the importance of the local and the contextual in order to evaluate how political power is exercised and resisted. Hardt and Negri build upon Foucault’s concept of biopolitics in order to assess the contemporary disciplinary techniques of Empire. Thus Empire serves as an insightful methodological interpretation of Marx’s method, and provides a series of concepts that will be examined in later chapters.
American Empire: Yankee Doodle Imperialism

In contrast with Hardt and Negri’s idea of Empire as a decentred system of bio-political networks, the second group of theorists argue that international capitalism is organized along transnational lines, but that the United States acts as the imperial agent in the global financial system. Here, America is the central network that perpetuates and enforces the demands of capitalism. The main contributors to this school, Leo Panitch and Sam Gindin and Ellen Wood, wrote their major works in 2004 and 2005 respectively. The timing of these works is important to how these scholars understand the United States as an Empire. This was a period immediately after the invasion of Iraq which was largely viewed by the Left as a self-interested grab for oil by the American government. The American president was George W. Bush, an evangelical Christian conservative from Texas, with deep links with the oil industry. The aggressive foreign policies of the Bush Administration, as well as the personal characteristics of the president, made the American government extremely unpopular in Europe, the Middle East and among left-leaning academics in the United States. In many ways, Bush’s presidency was the pinnacle of American imperialism and sparked a revival of a discussion of empire in the critical literature.

According to Panitch and Gindin’s theory of empire, the United States plays a central role in the regulation, expansion and perpetuation of the international capitalist system. The Americans have created “a global financial order with New York as its operational centre and with the American imperial state as its political carapace… [in] a way which finance and empire have reinforced each other”. The American state is inextricably connected with international finance – in the promotion of market liberalization, the use of new financial products, and to

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increase the ease of investment. The US uses both its large consumer market, and the position of New York as a global financial capital to further its interests in the international system. The “deepening and extension of financial markets became more than ever fundamental to the reproduction and universalization of American power. The American Empire is strengthened rather than weakened by its financialization”.\textsuperscript{157} They argue the liberalization of global finance is dictated and directed by the United States government, mainly for the benefit of the state vis-à-vis other states in the global system. The US is in the unique institutional position of being able to punish markets and countries that do not operate under their rules of global finance. The United States has veto power in over the policies of the IMF and the presidency of the World Bank. It is able to use these global institutional levers to dictate the terms of loans to indebted countries, and often requires the opening of an economy to foreign investment and a limit to government intervention. Thus, for Panitch and Gindin the United States is the empire that uses its power and capabilities to promote the interests of global capitalism.

Panitch and Gindin argue that the latest phase of globalization requires America to act as the global imperial agent to manage economic crisis and coordinate the global economy. The United States is expected to have a major role in “maintaining social order across the whole globe. From the perspective of ‘creating a world environment in which the American system can survive and flourish’”.\textsuperscript{158} The current phase of liberalized finance requires the United States as an enforcer. At times, this can be done institutionally, through the IMF, but at other times, it requires the use of military intervention. Other capitalist countries have come to rely on the United States to guarantee their security and punish challengers and rogue states. America does

\textsuperscript{157} Panitch and Gindin, 19.

\textsuperscript{158} Panitch and Gindin, 67.
not have a passive role in the international capitalist system though; it uses its position as an empire to promote its own interests. The United States’ financial system has the unique ability to attract capital due to its central position in the global economy, providing it greater economic flexibility than other developed countries. Moreover, the US dollar serves as the global reserve currency, and US treasury bills are considered among the safest investments for both domestic and international investors. The centrality of the American currency gives each country that holds its reserves, which in the case of China amounts to several trillions of dollars, a stake in continued American dominance of the system. Although I will elaborate in detail on the role of the US dollar as an asset for America in later chapters, it is sufficient at this point to state that it gives the United States a unique financial position in the capitalist system.

Also Panitch and Gindin recognize that the American empire must contend with a new series of international problems that threaten capitalism and global stability. The goal of the American government is:

   to try to refashion all the states of the world so that they become at least minimally adequate for the administration of global order — and this is now also seen as a general condition of the reproduction and extension of global capitalism.\textsuperscript{159}

The primary task of America is to make the world safe for capitalism. Capitalism not only requires states, but it needs a dominant state to act as an enforcer for corporate interests, investor and property rights. Due to the specific characteristics of the American state, an issue which I will discuss in later chapters, it is extremely amenable to the needs of international capitalism. America often compels other countries to open their markets through the use of economic incentives, but at times by force if there is resistance to the American and capitalist interests. Panitch and Gindin argue the main problem with this project is that after the war in Iraq it is

\textsuperscript{159} Panitch and Gindin., 71.
becoming more difficult for the Americans to convince both domestic and international public opinion that the United States is in fact not an empire.\textsuperscript{160} Americans have a popular belief that their country does not have imperial ambitions because its global mission is unique: it is meant to bring liberalism and human rights, not violence and conflict. Even with the threat of international terrorism, the United States promotes democracy and freedom as a way to mitigate foreign threats. However, Panitch and Gindin argue this idealistic mission only masks the imperialist tendencies of the United States. For them, there is no question; America is an empire working for the interests of international capitalism.

Like Panitch and Gindin, Ellen Wood understands the necessity for a central state to impose capitalism throughout the world. She shares the assumption the nation-state has become important to the stability of the capitalist system. Wood argues that,

> [t]he world today, in fact, is more than ever a world of nation-states. The political form of globalization is again, not a global state but a global system of multiple local states, structured in a complex relation of domination and subordination...this does not mean that imperial powers encourage the development of capitalist economies like their own everywhere. It simply means that subordinate economies must be made vulnerable to the dictates of the capitalist market, by forcing them to open their markets to imperial capital and by means of certain social transformations.\textsuperscript{161}

Yet again, a dominant state is required in order to force other weaker states to adopt capitalism. This is, of course, not an even process. The recent history of capitalist development has made several countries, like China, much wealthier, while others, such as those in sub-Saharan Africa, have gotten much poorer. In each case, the state has been central to the success or failure of the integration in the capitalist system. In the case of China, the government started bilateral negotiations with the United States shortly before the death of Mao. With the ascendency of

\textsuperscript{160} Panitch and Gindin, 72.

Deng Xiaoping in the late 1970s, China began opening its economy to foreign investment on a trial basis in targeted regions. Over the past 30 years, the gradual liberalization of the economy under the close supervision of the Beijing regime has led to China becoming an economic powerhouse. Thus, the American and Chinese government played an integral role in the integration of China into the world economy, both through normalizing international relations with the United States, and through domestic social and political changes to promote investment.

Wood’s conception of empire relies on two main assumptions: first, the state is still a central actor in the contemporary world, and, second, the most powerful state must be willing to use its military and economic capabilities in order to spread capitalism. In this era, the American empire is the main agent that does this task:

This process [the development of capitalism] would hardly have been possible without the support of the state, which by means of juridical interventions and legislation, helped make property rights market-dependent. From the beginning too, intervention by the state has been needed to create and maintain not only the system of property but also the system of propertylessness.\textsuperscript{162}

The American state is central to the expansion of the capitalist system. It is required to maintain an institutional framework that no longer permits anti-capitalist social formations, like large scale communes or common lands. As well, the US protects those who control and own the means of production, such as investors and property owners. From here we can see how the state is necessary for capitalism to enter new territory. It is through the use of the state –in the interests of the capitalist class – that the empire of capital is established. New institutions that better meet the needs of the market displace local forms of identification and production. Capitalism is an uneven process; certain developed states will have a stronger economy and better military than others. This disequilibrium between powerful and weak states, coupled with the need to spread

\textsuperscript{162} Wood, 17-18
markets, leads to the imperialist policies from the United States government. As the most powerful country, it has the role as the enforcer in the global capitalist system.

Panitch and Gindin and Wood have a great deal in common in their conceptualization of empire. Their analysis is a more conventional interpretation of historical materialism on the relationship between the economic and political sphere. They recognize that the needs of accumulation compel states to follow the interests of the dominant economic classes. While it would be a gross misrepresentation of their theories of empire to suggest that the owners of the means of production solely guide the foreign policy of dominant states, the needs of the capitalist system are the main determinant of the policies of the American state. This link provides their analysis with a far more familiar conceptual framework for most Marxists. The need for the expansion of capital into new markets creates an incentive for states to intervene when necessary. Often this will be done through international institutions, while at other times, military force is needed. Of the utmost importance for their conceptualization of empire is the specific institutional structure in order for capitalism to properly function - a nation-state which will have the ability to coordinate the growth of the capitalist system.

For Panitch, Gindin and Wood, America must open markets in new, previously untapped, regions through imperialism. This expansion requires a broader social transformation in the dominated society in order to maintain property rights and the rights of investors. An implication of this approach to imperialism places particular importance on the American state as a possible avenue for social and economic change. If, as they hypothesize, the United States is the major agent for the spread and continuance of capitalism, then it can serve as a possible location to alter or change the economic system. As I will discuss in Chapter 5, there is evidence to support this argument. In the post-WWII period, America was central to forming the Bretton Woods
international economic system which heavily regulated finance and opened markets to trade. Whether America still has the capacity to shape international capitalism will be a central issue that will be examined in Chapter 6. Unlike Hardt and Negri, who combine the superstructure and base together methodologically, this conceptualization of empire gives a location for social change. This does not imply that the American state is the only way capitalism can be challenged, merely that as a central network it has the most important role in the system.

**The New Imperialism: The Geopolitics of Capitalist Competition**

The third major group of scholars, which include David Harvey and Peter Gowan, argue that the global economy is organized along regional lines, which leads to inter-state competition over economic wealth and influence. Like Panitch and Gindin, the project for Harvey and Gowan is to explain the reasons behind the American invasion of Iraq, as well as the rise of China. The reason for the qualification that this is a “new” type of imperialism is to distinguish it from previous eras of interstate capitalist rivalry. The United States is now the lone superpower, but it is not without contenders for economic primacy. According to this group of scholars, competition still exists over markets between the three main global centres of production: America, Europe and South East Asia. Moreover, the relation between capitalists and politicians are not harmonious as Hardt and Negri and Panitch and Gindin suggest. Though often the government acts according to the interests of transnational capitalism, there can be considerable tension over policy. Scholars on the new imperialism have considerable differences from the literature examined thus far in how empire and imperialism should be conceptualized. Harvey’s theory of imperialism relies on an understanding that capitalism creates unequal development.
The tendency towards a ‘spatial fix’ to prevent a crisis of overproduction leads the economic interests of capitalists to influence the policies of the United States:

My aim is to look at the current condition of global capitalism and the role that a ‘new’ imperialism might be playing within it. I do so from the perspective of the long durée and though the lens which I call historical-geographical materialism. I seek to uncover some of the deeper transformations occurring beneath all the surface turbulence and volatility, and so open up a terrain of debate as to how we might best interpret and react to our present situation.¹⁶³

Production, then, has a dynamic relationship with geography in the development of a society. Capitalism can exist at different stages in the same historical period depending on the geographical location of a country and its economic development. Furthermore, the history of a country along with its level of economic advancement and culture can have significant implications on its political system as well as its foreign policy. While Harvey would not deny the significance of capitalism as a motivating factor for states (hence the competition for oil by the world’s dominant powers), material motivations interact with domestic political considerations in determining the policies of a country. Thus the United States, the EU and China are all capitalist economies, but their institutional, political and economic systems are distinct.

Harvey’s theory of the new imperialism recognizes the United States plays a dominant role as the world’s lone superpower, but due to domestic politics may not be solely motivated by the demands of capital. Harvey argues the war in Iraq was due partially to the “inner/outer dialectic”, where domestic problems are ignored or subverted through the creation of a foreign threat.¹⁶⁴ When difficulties arise on the domestic front, political leaders often use an external

¹⁶³ Harvey, 1.
¹⁶⁴ Harvey, 12.
threat to marshal support for the government. Around 2003, Bush’s popularity began to wane after the terrorist attacks of 9/11, this was coupled with a souring economy and an increasing gap between rich and poor. Harvey argues the Bush Administration largely manufactured the war to take attention away from the numerous social problems in America.\textsuperscript{165} However, this was not the only reason for the invasion. The major countries in South East Asia, China and India, have gotten wealthy since the collapse of the Soviet Union in the early 1990s. The war is part of longer-term strategy to control of a vital resource, oil, from current and future competitors.\textsuperscript{166} This plan was formulated by the neoconservatives in the administration, Dick Cheney, Donald Rumsfeld, and Richard Perle. As I argued in Chapter 2, they believe that by spreading free markets and democracy that America could prolong its global primacy and ensure its security. Though the demands by corporations for cheap labour and new profitable markets requires America to do business with rising powers, the United States government is aware that this could pose a challenge to its primacy in the near future. So not only was the invasion of Iraq for domestic political reasons, but it was also part of a strategy to prevent competitors from attaining access to Middle Eastern oil.

A significant theoretical point of Harvey’s theory of the new imperialism is that the interests of politicians and capitalists are largely compatible, but at times there is conflict and tension. Harvey discusses the characteristics of each group at length:

The capitalist operates in continuous space and time, whereas the politician operates in a territorialized space and, at least in democracies, in a temporality dictated by an electoral

\textsuperscript{165} Harvey, 13.

\textsuperscript{166} Harvey, 12-25.
cycle… capitalist firms come and go… but states are long-lived entities, cannot migrate and are… confined within fixed territorial boundaries. ¹⁶⁷

For Harvey, economic and political power is less harmonious than theorized by Hardt and Negri and Panitch and Gindin. Politicians whose main goal is to remain in office will usually seek to enrich their constituents; this often correlates with the interests of local capitalists and investors. However, money has few barriers – capital is not fixed in a territory, nor is it accountable to a democratic electorate. Thus the interests of capitalists and politicians can be distinct in numerous ways. It is in a politician’s interest to keep an economy growing and prevent recessions, especially when elections are imminent. In contrast, capitalists are interested in making a profit, which can benefit their home country. However since the scope of capitalism and finance are global, a country’s economy can be detrimentally affected by the investment choices of capitalists. Moreover, politicians must consider geopolitical security and inter-state competition when making decisions. Government leaders have to take into account the military defence of a country, not just economics. Capitalists are primarily concerned with a return for their investment, and do not, generally, take politics into consideration unless it threatens profitability.

So for Harvey’s theory of new imperialism, the American state may work in the long-term interests of capital, but significant short-term tensions exist between capitalists and politicians over policy.

Harvey examines the relationship between the contemporary capitalist system and the United States. Imperialism arises as ways to mitigate crisis -to alleviate the contradictions in capitalism with geographical expansion. Harvey argues there is a clear relationship between the demands of capitalism and imperialism:

¹⁶⁷ Harvey, 27.
Imperialistic practices, from the perspective of capitalistic logic, are typically about exploiting the uneven geographical conditions under which capital accumulation occurs and also taking advantage of what I call the ‘asymmetries’ that inevitably arise out of spatial exchange relations. …through unfair and unequal exchange, spatially articulated monopoly powers, extortionate practices attached to restricted capital flows and the extraction of monopoly rents.¹⁶⁸

Imperialism then arises for two main reasons due to capitalism. First, there is constant pressure on capitalists to produce more goods at the cheapest price, making an incentive towards expanding production. Secondly, according to Marx, capitalism suffers from numerous contradictions. Harvey argues one of the central ways to prevent a crisis in capitalism is through the geographic expansion of capitalism into new areas, the so-called ‘spatial-fix’.¹⁶⁹ These two tendencies in capitalism place pressure on powerful governments to expand capitalism and open new markets. This imperialism then is ‘new’ because it diverges from previous theories of empire by recognizing that conflict does not exclusively occur due to capitalism, but also can come from domestic and international geopolitics as well.¹⁷⁰ Though the United States more often than not may promote the interests of capitalists, it is not uncommon for other motivations to take precedence.

Peter Gowan shares many of Harvey’s assumptions about the world system. Gowan recognizes America is an empire, but that despite its superior position, tension still exists within the wealthy core countries. He asserts:

I … argue that there are structural sources of conflict between core capitalisms in the fields both of economics and politics. These sources of conflict are … generating tensions and rivalries today… Conflicts can be considered structural in two different senses: first because they have their source in systemic features of capitalism; but second because

¹⁶⁸ Harvey, 31.
¹⁶⁹ Harvey, 109.
¹⁷⁰ Harvey, 46.
Conflict arises due to the systemic features of the world system. As Hardt and Negri and Panitch and Gindin suggest, capitalism is organized as a global system of production and distribution, so for their theories, the main source of conflict will be between capitalists and exploited workers. Non-systemic forms of conflict do occur, of course, but they tend to be contingent and not long-standing. Gowan does not dispute tensions arise between these groups, but argues major structural conflict still takes place along geopolitical lines. And though these disagreements may not lead to an all-out war, interstate economic competition is still a major feature of the contemporary global system.

The major source of inter-state competition is regionally organized economies. According to Gowan, over 80% of the profits of Multinational Enterprises (MNEs) are from their home region. So though finance and trade may be global in scope, most corporations are still regional. They produce their goods in the same region where they are sold, like in North America, Europe and South East Asia. Thus American MNEs do not dominate the global economy exclusively, but compete in regional markets with domestic corporations. This creates competition both within and between regions for market share. Moreover, corporations rely upon their home governments for subsidies and tax incentives, meaning states have an integral role in their profitability. Governments have an incentive in promoting corporations that are from their home country since profits tend to be repatriated back to their country of origin. Gowan, then, would largely agree with Harvey’s assumption that inter-state competition is still a significant

\[\text{\textsuperscript{171}}\] Peter Gowan, “Economics and Politics within the Capitalist Core and the Debate on the New Imperialism” (2005) <http://www.ie.ufrj.br/eventos/seminarios/pesquisa/economics_and_politics_within_the_capitalist_core_and_the_debate_on_the_new_imperialism.pdf>. 1

\[\text{\textsuperscript{172}}\] Gowan, 14.
part of the international system and is driven by the interests of regional capitalists. The American state does not dominate the international economy to the extent that Panitch and Gindin suggest, but has rivalry from other global economic centres. For Gowan it is quite possible that the Europe Union or a country in South East Asia could supplant America as the hegemonic power in the global system. The American government is well aware of its vulnerability and uses its capabilities to extend its global hegemony.

Harvey and Gowan provide numerous concepts that will be useful in examining imperialism in the following chapters. For one, they both recognize that production is a major source of imperial struggle, but not the sole driving force behind America’s, or any other governments, foreign policy. This is a shared assumption of DHM as there is a role for domestic politics, culture, and ideational factors as other determinants of imperialism. Harvey is in fact quite explicit about the contribution of neoliberal ideas as a major determinant of the structural economic changes in the 1970s and 1980s, though of course changes in production and technological innovation still played a role.\(^{173}\) Secondly, in contrast to Hardt and Negri, Harvey and Gowan understand that economic and political power is not harmonized – the interests of politicians and capitalists may diverge. Finally, though both argue America is the dominant global power, there is considerable economic and political competition from other regions. Often at the behest of their home corporations, countries compete against each other for better trade deals, increased market presence and greater wealth. This competition is often resolved through peaceful channels, but as Harvey argues it led to America invading Iraq to control its oil.

\(^{173}\) Harvey, 4.
Harvey and Gowan argue that changes in technology and geopolitics have led to a “new” form of imperialism that differs from previous eras. The terrorist attacks of September 11th, the rise of foreign competitors and the neoconservative agenda have led to a new phase of American imperialism. The imperialism during the Bush presidency is distinct from the Clinton or even Reagan period in its scope, focusing more on Middle Eastern oil and terrorism than trade or countering Russian expansionism. Furthermore, both Harvey and Gowan recognize the importance of domestic politics, but then discuss it in the global context. Like DHM, they provide an analysis that examines the relations between the state, region and global system. Harvey recognizes that there were multiple determinants of the war in Iraq: deflecting attention from domestic problems, spreading democracy, as well as preventing China from capturing Iraq’s oil reserves. Similarly, DHM can help to examine the contradictions between the relationship between China and America. While global capitalism may be driving the two countries closer together, with their economies linked through vast production networks, politicians and the security establishment see the rise of China as a potential threat to the hegemony of the United States.

The Terminal Crisis of American Hegemony?

Although Giovanni Arrighi’s theories share a great deal with the new imperialism perspective, there are several important theoretical and methodological differences that distinguish his work unique from that of Harvey and Gowan. First and foremost, Arrighi takes the view that the United States has entered a terminal crisis and will inevitably decline. Arrighi argues:

I...deploy Harvey’s concepts of spatial fix and accumulation by dispossession to provide my own interpretation of the relationship between capitalism and imperialism, over a
considerably longer time horizon. I… conclude by showing that this interpretation enables us to solve the puzzle of why ‘scaring hell out of the American people’ was highly successful in helping to establish US hegemony in the wake of the Second World War but is now, in all likelihood, helping to bring that hegemony to an end.174

The crisis in capitalism since the 1970s has led to the slow, but inevitable, decline of the hegemony of the United States. He elaborates on this at length in his book Adam Smith in Beijing, where he argues that political and economic power has shifted away from Europe and America and towards China.175 The recent financial crisis of 2008 furthers the unravelling of American power; the US economy remains unproductive and its government relies on financing from East Asia for its massive debt. Arrighi argues this is the result of a larger economic transition in the global economy where China will play the role of the dominant hegemonic economic power in the 21st century. This conclusion is a significant leap from the conclusions reached by theorists in the new imperialism perspective.

Arrighi offers a departure from Harvey’s generalization of the territorial logic of politicians and capitalists, arguing the two cannot entirely be divorced from context and culture:

[Harvey’s] use of the distinction, however, differs from mine in two important ways. In his, the territorialist logic refers to state policies, while the capitalist logic refers to the politics of production, exchange and accumulation. In mine, in contrast, both logics refer primarily to state policies. Moreover, Harvey seems to assume that all market processes (including trade, commerce, labour migration, technology transfer, information flows and the like) are driven by a capitalist logic. I make no such assumption.176

Arrighi argues against a broad distinction between the logics of capitalists and politicians. He asserts though finance is global, capitalist production is territorialized and thus requires the state’s coercive ability and institutions. Since the two develop alongside each other, it is not

176 Arrighi, Hegemony Unraveling –I, 28.
possible to completely differentiate between the logic of capitalists and the state. The logic of
capital and the state interrelates with a country’s historical and cultural development.

Furthermore, Arrighi suggests the relationship between capitalism and states varies throughout
history and depends greatly on geopolitical competition and the technological levels of
development of a society. Though there is a tendency in capitalism towards accumulation, both
markets and capitalists are not exclusively motivated by profit. Other incentives may take
priority due to their location and context. The market must be examined like any other institution
- its logic is partially determined by its history and culture.¹⁷⁷

For Arrighi, imperialism is the struggle between states over the shifting movement of
production and finance. The state acts in a dual role: it is a necessary part of the expansion of the
capitalist system by opening markets and regulating labour, but it also is the main agent against
other competitors. Arrighi elaborates:

My observation… draws our attention to the process whereby increasingly powerful
capitalist organizations have become the agency of the expansion of a system of
accumulation and rule that from the start encompassed a multiplicity of states. From this
perspective, imperialism of the capitalist sort is an aspect of the recurrent struggles
through which capitalist states have used coercive means in the attempt to turn in their
favour the spatial shifts entailed in the ‘endless’ accumulation of capital and power.¹⁷⁸

With the advances in transportation technologies, production is possible in almost any territory.

It is this movement of investment from one geographical region to another that can either
strengthen or bankrupt an empire. There is constant competition for scarce economic resources,
with the fear on the part of politicians that a country may lose its primacy over other countries.

At times, capitalism has enriched the Dutch, the British, the Americans, and now China. Thus,


¹⁷⁸ Arrighi Hegemony Unraveling 2, 84.
imperialism is a political strategy to tilt the global economy to favour one country over another. In the modern day, the major cleavage is between America, managing its decline, preventing the rising China from carving out a larger share of the global economy.

Though Arrighi borrows many ideas from Harvey about the spatial fix in capitalism, he differs in how he conceptualizes the logic of capitalists and politicians as well as the place of the United States in the international system. Arrighi offers many concepts related to empire that will be useful in the analysis using DHM. For one, along with DHM he recognizes that the capitalists do not have a shared universal logic, but are influenced by their history, culture and geography. In this sense, Arrighi understands capitalism may be a global system, but is unique in certain ways when it is territorialized in societies. Arrighi argues the logic of the state and capitalists are not distinct – the two logics are inextricably linked together. Despite the competition between countries, capitalism is unique in every region and progresses alongside political and cultural institutions. His long term historical research leads Arrighi to the conclusion that America has entered a “terminal phase” where China will become the hegemonic power in the 21st Century. Predicting the end of the American empire or any empire is an extremely difficult task given the complexity of the global system and the expanse of American economic and military might. Thus this conclusion will be an issue that will be addressed using DHM in the following chapters.

**Summary and Conclusion**

In this chapter I outlined the major perspectives on empire in the IPE literature. My goal was threefold: to outline the major contemporary theories; to provide an explanation of what they have in common and where they differ; and to offer a brief commentary on their methodology. I
divided the perspectives into categories based on how the scholars theorize the contemporary system of capitalism’s relationship to the United States (or even if the two are indivisible). For Hardt and Negri, Empire is a transnational system of biopolitical production; it overdetermines the actions of nation-states. For them, America is one of series of networks that perpetuates Empire, albeit an important part of the system. Imperialism then is about spreading the culture, identities and norms of Empire. This can be direct for through the use of force, or indirect through the passive adoption of the values and practices of Empire. Panitch and Gindin, and Wood, agree that capitalism is a transnational system, but that America plays the central role in shaping and enforcing the interests of the wealthy. For them, the modern day imperialism is distinctly an American task. The United States must protect the interests of transnational capitalism and open markets to investment.

Alternatively, the new imperialism perspective, which includes Harvey and Gowan, argues capitalist production is divided into regions. Imperialism stems from states competing against each other, and even at times coming into conflict with the interests of capitalists, in pursuit of greater wealth. For this perspective, America is the major power in the system, but its primacy is threatened by regional competitors. Moreover, there can even be substantial tension within a state over policy. Capitalists are not a homogenous group, nor are politicians. Their views are shaped by their location and context. Finally, Arrighi shares many of the assumptions of the new imperialism perspective, but argues America is in a decline against the rise of China. Each of these theorists contributes to the understanding of empire and imperialism, and though they differ on certain aspect, they offer numerous useful ideas to reconceptualize imperialism. In the two historical chapters that follow, I will use DHM to reconstruct the recent transformations
in imperialism in the 20th and 21st century to intervene in the debates outlined above in order to provide a more historically adequate analysis of imperialism.
Chapter 5:

Imperializing: The Transformations in the Global Economy

Capitalist production seeks continually to overcome these immanent barriers, but overcomes them only by means which again place these barriers in its way and on a more formidable scale...The real barrier of capitalist production is capital itself. It is that capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; that production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers. The limits within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperisation of the great mass of producers can alone move — these limits come continually into conflict with the methods of production employed by capital for its purposes, which drive towards unlimited extension of production, towards production as an end in itself, towards unconditional development of the social productivity of labour. The means — unconditional development of the productive forces of society — comes continually into conflict with the limited purpose, the self-expansion of the existing capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time, a continual conflict between this its historical task and its own corresponding relations of social production. – Karl Marx.179

Economics are the method; the object is to change the heart and soul. – Prime Minister Margaret Thatcher.180

Chapters 1 and 3 outlined the major theoretical contributions to empire from the mainstream and critical literatures. The purpose of chapter 3 was to examine the assumptions of historical materialism –the method that will be used to reconceptualize imperialism. Using DHM, I will discuss the determinants of contemporary imperialism. The major themes of these

179 Marx, Capital vol i, 250.

180 Ronald Butt “Interview with Margaret Thatcher”. The Sunday Times, May 3rd, 1981
chapters will be holism, change, contradiction and process. The analysis in these chapters highlights the long-term transformations and contradictions in global production and finance and the ability, or inability, of the United States to manage crisis. Throughout the 20th century, there have been contradictions in capitalism that have reached the point of crisis. I will use DHM to explain the historical determinants behind the Great Depression in the 1930s, the period of stagflation during the 1970s, and the Great Recession that began in 2008. A goal of these next two chapters is to show how events cannot be abstracted from their historical and social context, as is often done in the mainstream literature. For example, the recent recession has far reaching historical roots, dating back to policy decisions made by President Roosevelt during the 1930s. Although these chapters place emphasis on the United States, they will also discuss transformations in the broader global system. The quantity/quality distinction will be used to understand how changes in capitalism can, at times, emerge gradually before leading to a broader transformation in the entire system, most recently evident in the rise in neoliberalism in the late 1970s and early 1980s. Although neoliberalism is often attributed to the policies of Margaret Thatcher and Ronald Reagan, as I will show, quantitative changes had begun to occur by the late 1960s in the capitalist system, leading to experimentation in places like Chile. The qualitative global transformation to neoliberalism did not occur suddenly, but took nearly 20 years to become orthodoxy in most Western countries. Even still, there remains a great deal of tension both within and between governments over economic policy and distribution. DHM will be used to examine the crises and tensions that have occurred due to the constant transformation in capitalism.

Historical materialism will also help to understand the political and social changes that occurred due to major innovations in production and finance, such as air transportation
technology and the internet. At the same time, these innovations are not always progressive, but can lead to new forms of opposition in the system, such as global terrorist networks like Al Qaeda. These technological advances have linked governments and economies together at a historically unprecedented level. One example of this new linkage was brought about through Deng Xiaoping’s decision to slowly open the Chinese system to the global economy - now the country is one of the largest producers of manufactured goods in the world. As I will discuss though the use of DHM, the recent development of China is also an example of the interpenetration of opposites: some in the American defence department view China as a rising threat, while in the business community view China as a place of investment and opportunity. Both are viewing the same phenomenon, but their opinions vary based on their institutional position. Furthermore, a fundamental methodological distinction of this analysis is its focus on determinants rather than absolute causes of processes. It avoids generalizations that abstract phenomena from their history and context and will discuss concepts as open-ended, requiring contextualization to understand their meaning. This chapter will examine neoliberalism, but recognizes that neoliberalism is not a singular global process. It interrelates with a country’s politics, culture and institutions. By analyzing imperialism in a variety of contexts, I will offer a broad analysis that will take into account certain factors the mainstream and critical literature otherwise ignore.

The purpose of these chapters will be to use the method of historical materialism to examine the recent historical role of the United States in the capitalist system to uncover the processes of imperialism. Following DHM, I will discuss the United States as the main hegemonic state during the 20th century. As capitalism is a global system of production, many other states, firms, and non-governmental actors will be included in this analysis. Along with
this, I will show the contemporary economic and military distribution of power has the unique imprint of America. Although America will be of central focus in this chapter, it will not be the only topic under examination. The development of capitalism in Europe and China will be discussed, particularly how each have responded to the 2008 financial crisis. In many ways, this chapter will be about the barriers that have arisen both in response to and as a result of the pattern of the development and the expansion of the capitalist system. These barriers are also partly a result of oppositional social, economic and political forces.

**Historical Materialism and Mainstream Methods**

I will show in these next two chapters why Marx’s method of historical materialism provides a superior analysis of imperialism than the mainstream IR literature. The central reasons are ontological and methodological. From a methodological standpoint, historical materialism emphasizes relations, context, and history, while the goal of mainstream research is to arrive at generalizations. The methodological commitment of mainstream political science to positivist research has important theoretical consequences. Mainstream realists in America tend to argue the US is the dominant empire and a stabilizing force in global politics. America is similar to other empires in history and acts as a global police force. Despite some problems associated with its hegemony, it is in the interest of most other countries to have the US maintain order. Mainstream theorists abstract from context to produce a generalizable theory and by doing so ignore the violence and instability created by America in its goal of maintaining the status quo. The other major theory, liberalism, provides ideological support for the US government by perpetuating the idea of American exceptionalism. Liberals in America believe that the US has a
unique historical mission: to spread democracy, freedom and human rights. Due to their methodology, liberal theories of IR abstract the United States from its history of exploitation and ignore capitalism as a significant driving force behind US foreign policy. Theories of imperialism influenced by Marx recognize imperialism is an expansionary, exploitative and violent process. Historical materialism uses the mode of production—capitalism—as a methodological starting-point. Through an examination of historical context, dialectics seeks to uncover relations and determinants rather than causes. Historical materialism will provide an account where imperialism is a complex constantly changing process with numerous contradictions that is in many ways distinct from previous periods.

The problems with mainstream international relations stem from its ontology and methodology. Despite the supposed differences between realism and liberalism in American IR, they both share a common commitment to “scientific” positivist approaches to social research. Mainstream IR scholars assume that the state, the main unit of analysis, remains constant throughout human history regardless of time, culture and location. It is not uncommon for studies in IR to compare the contemporary American state to political organizations ranging from the Greco-Roman period, to Imperial China, to the Napoleonic era. There is an explicit assumption that despite the dramatic cultural and historical changes over these periods of time, the state has been the dominant actor in international system. The differences between states are ignored for the purposes of transhistorical comparisons. They are committed to an understanding of an abstract concept of the state and cannot deal with change, context and other relations. This search for a general theory of empire prevents realists from an in-depth understanding of modern imperialism. There have been dramatic changes in production, technology and communications that are ignored by mainstream IR theory. So regardless of the amount of historical research
undertaken by mainstream IR scholars, history is nothing more than a set of cases to generate abstract theories.

This, of course, leads to a very interesting paradox for mainstream IR: it is committed to generating theories that try to predict the future, but it has failed, time and again, to predict major changes in the international system. For example, there were numerous IR scholars in the US devoted to the study of the Soviet Union. Yet very few could predict the sudden collapse of the USSR between 1985 and 1991. More importantly, the dominant theory of IR at the time, structural realism, theorized that the USSR would be more likely to attack NATO if the regime was threatened rather than allow itself to self-destruct. Despite of the inability of American IR to predict major events like the American loss in Vietnam, the terrorist attacks of September 11th, 2001, or the relatively peaceful rise of China, scholars in IR continue with the goal of science and positivist approaches to social research.

Alternatively, the ontology and methodology of historical materialism focuses on relations, process, contradiction and change. Where mainstream IR assumes the state is constant throughout history and thus the US is immediately comparable to other empires, historical materialism seeks to examine the context and circumstances that gave rise to the contemporary American empire. The expansion and promotion of capitalism into new territories has been a driving force behind American foreign policy. Capitalism requires profits and, as the dominant power in the western system since World War II, America has been on forefront of breaking down of barriers to investment. The US government has been central to managing periodic crises in capitalism through a variety of economic and political measures. Furthermore, the dramatic advances in technology in areas like weapons and communications have an influence many aspects of modern imperialism. A method using historical materialism would help to understand
that the American Empire with its nuclear-powered weapons and instant communications technology might be different from the Mongol empire which relied on horses and spears. Mainstream IR methods would almost automatically assume the two cases are comparable and useful for generating theories.

Also, historical materialism understands the world is constantly changing and seemingly stable processes are prone to contradiction. The purpose of mainstream theories is to form generalizations for the purpose of prediction. In contrast, historical materialism is used to understand how change has occurred and where potential contradictions exist in the current economic and political system. History is not just a convenient series of events for social researchers to abstract for theory-making, but rather it’s a guide for the origins of a process like imperialism. It can provide possible ways to challenge the exploitation and harm associated with modern capitalism. Moreover, Marx’s method is holistic, requiring an analysis assess the global level in order to properly contextualize a process. While the mainstream literature also examines the international system’s structure, it focuses on one unit of analysis: the state. Too often, IR theory has difficulty explaining intra-state conflict because of the limitations of its methods and ontology. Historical materialism may examine a process at the global level, but it is not restricted to this. Since the method emphasizes relations, processes at the international level interrelate with a country’s domestic politics, economy and culture.

**Mainstream Theories versus Marxist Theories**

The outcome of mainstream methods is that the dominant theories of empire in IR ignore America’s history of violence and exploitation as a consequence of capitalism. Many realists
argue the dominance of the United States as beneficial to the world, creating greater stability and peace for all countries. In fact, there is a close relationship between American education institutions and the foreign policy establishment. For realists, empire brings with it *Pax Americana*. The US acts as a world police force, combating threats to the system when they arise. What they ignore is the high price of empire. American dominance in the international system has led to the misery of many people in needless wars, such as the Vietnam conflict and the 2003 Iraq war. Although the United States is more likely to use incentives for compliance, it has at its disposal the largest and most technologically advanced military in the world.

The liberals in IR argue the United States is the ideal humanitarian empire – one that promotes liberty, peace and prosperity. However, liberals in IR abstract the ideals of America from the actual historical record of American expansionism. For example, in the lead up to the Iraq war, numerous liberals argued in favour of the removal of Saddam Hussein on humanitarian grounds. They believed that America would spread human rights, a representative system of government, and free markets. What they ignored was the entirely foreseeable outcome of the invasion, which provoked sectarian violence and terrorists in the region. The avoidance of the problems of US foreign policy is due to the abstraction of the ideals of America from its history. Alternatively, because historical materialism requires an in-depth examination of history and context, it would show the contradictions of American liberal theory. The main one being liberal scholars prescribe these ideals for other countries when there are numerous social, economic, and political problems in America. The United States still has not dealt with its history of racism, nor its marginalization of women and the poor. It manages these issues through its workfare programs or its prison system – America has the largest per capita prison population in the
world. However, undeterred from this political reality, liberals are keen to prescribe to people in other countries how they should organize their social, political and economic life.

This thesis will use historical materialism to provide an analysis of imperialism that has many determinants and driving forces. It provides a method to understand the relations between capitalism, ideology, culture and politics as parts of the imperial process. Mainstream theories tend to offer simplistic explanations of imperialism. Moreover, they ignore capitalism, or when it is discussed, it is always presented as part of spreading freedom and human rights. The analysis I will offer using DHM will help to understand the process through which the US government breaks down barriers to capitalism - at times it is done through incentives, while at other times, through the use of violence. In the current system, the Americans have often relied on intermediary global institutions like the International Monetary Fund to open new markets to corporations and investment, or have used access to the wealthy American consumer market to compel compliance. Furthermore, capitalism interrelates with a country’s culture and political institutions. Imperialism may be mainly driven by capitalism, but other ideational, cultural or geopolitical factors matter as well. Thus imperialism does not have a single cause, such as international state competition, but its determinants vary depending on time, context, and other contingent circumstances.

**Typologies of Imperialism**

Through the use of DHM these chapters will intervene in the debates on imperialism by commenting on and evaluating the theories established in chapter 2 and chapter 4. I will introduce three interrelated types of imperialism as the dominant forces in the post-Second
World War system. Since DHM recognizes that relations are internal, each type of imperialism is part the same broader political and economic expansionary force, but at different times and in different places a particular process of imperialism is more emphasized. The first is “geopolitical imperialism” where geopolitics is the main determinant behind foreign policy. This process is driven by international security concerns or domestic politics and often has few direct economic motivations. Though it does vary from case to case, many of the costly American Cold War conflicts fall into this typology. For example, vast economic resources were poured into Korea and Vietnam for very little economic return, and, as I will discuss, the latter case actually harmed the overall prosperity of the American economy. Much of the theorizing behind this view of imperialism is borrowed from David Harvey as the “territorial logic” of politicians.\textsuperscript{181} As I elaborated upon in chapter 4, political leaders are often motivated to meet the demands of capitalism, yet they also have other considerations. This divergence between political actors and capitalists can create contradictions between the demands of the state and capitalism. Scholars of the realist and liberal schools often discuss this feature of the international system, but often fail to recognize geopolitics as one of several competing and interrelated systemic sources of conflict. However, the choices made by political actors are not always based on a clear cost/benefit analysis; policy decisions are often made for political reasons or, at times in the American case, to spread ideals like democracy and liberty. Politicians must take into consideration economic as well as international and local political affairs. As the famous adage from Speaker of the House Tip O’Neill goes, “All Politics is Local.” For geopolitical

\textsuperscript{181} David Harvey \textit{The New Imperialism}, (London: Oxford University Press, 2005): 33
imperialism, contingent domestic or international factors are behind US foreign policy, not just exclusively the needs of the capitalist system.

The second typology is “geocapital imperialism.” This type of imperialism is the most familiar to critical theorists and by far the most discussed in the literature. In the post-war era, this type of imperialism was determined when the needs of capital accumulation coincide with the policies of the American government. In many cases, this requires the use of the military, while at other times it uses other international institutions. Similarly, this can be violent or non-violent in order to achieve an outcome. This form of imperialism is widely theorized by most of the work in the critical literature from Leo Panitch and Sam Gindin, to David Harvey and Peter Gowan as well. Harvey argues the new form of imperialism occurs when the logic of capital and the territorial logic of politicians coincide, as they did during the war in Iraq. However geocapital imperialism does differ in several important ways. While capital is more mobile than the state, it is never completely divorced from geography. Capitalists must live somewhere, and, except for high finance, money is invested in some location. Geocapital imperialism shares Giovanni Arrighi’s assumption that capital and politics cannot be abstracted from other contextual determinants like history and culture. Thus this type of imperialism varies depending on the specific corporation’s pressure placed on the government. For example, oil companies require a different type of protection from the US government than auto manufacturers. They both participate in geocapital imperialism, but it they have important and sometimes competing differences.

\[182\] Ibid.
The third type of imperialism is “capital imperialism.” The ability of capitalism to enrich or bankrupt a region has had a long history, but the recent financialization of the system has made this much more rapid and disruptive international force. This form of imperialism conditions countries and institutions through transnational finance, such as bond markets, the repo markets, currency speculation and investment flows. Although there are financial hubs in New York, London and Hong Kong, the impersonal forces of finance are transnational and beyond the control of any single or group of states. Financialization has even become commonplace for corporations that used to produce tangible commodities. Companies such as General Electric and Ford Motor Company have come to rely upon finance as major source of revenue rather than to innovate or produce products for the market. Moreover finance is beyond any single investment bank and hedge fund. They too are vulnerable to capital imperialism and can experience abrupt crises. Yet at the same time, the world of finance is influenced both by territory, institutions and culture. As I will discuss in detail in Chapter 6, the American financial system varies in many significant ways from the Chinese and European financial systems. Despite being global in scope, each financial market has unique characteristics due to the role of government and the underlying productive capabilities of an economy. Capital imperialism is often destructive to some of the most powerful countries and institutions that were traditionally used to expand the capitalist system.

An important caveat to this typology of imperialism is that the processes of imperialism during a particular event may not fall into one category or another, or even stay in one category for prolonged periods of time. As will with be explored in detail later, the American intervention

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in South Korea was mainly for geopolitical reasons in the name of security against a Cold War threat. South Korea slowly started to develop through joint capitalist/state ventures leading to geocapital imperialism. Finally, South Korea was integrated into financial markets, which made it vulnerable to international financial flows, such as the East Asian crisis in 1997. Also, the three imperialisms can, and often are, at work at the same time and in the same place. It is common in the post-financial crisis context to see the demands of governments, domestic corporations and financial markets diverge. However, the degree to which each processes of imperialism are at work is dictated by the historical circumstances and will be evaluated according to DHM. These typologies are used mainly for organizational purposes and must be examined in their specific historical context to understand how they vary across time and space. Historical materialism allows for open-ended concepts that must be assessed in their appropriate context. Culture is another important feature of imperialism and is a determinant of all three types of imperialism and will be discussed accordingly throughout the next two chapters.

These forms of imperialism are present on a subnational level as well as on an international level, though my analysis will discuss the interplay between the two with more focus on the latter. As Karl Polanyi argues in his seminal text *The Great Transformation*, the state is fundamental in organizing, reorganizing, and at times inhibiting, the economic demands of capital.\(^\text{184}\) For example, building a dam often requires geocapital imperialism that is its main determinants have both government and capitalism working in tandem, to move the local population and privatize public goods. Alternatively, domestic geopolitical imperialism is often

done through the direct use of coercion such as through the police force, prisons or other state institutions. The poorly conceived and incredibly expensive war on drugs is a recent case of the American government putting marginalized groups in prison under the guise of being “tough on crime”. These policies are politically popular, but do not actually cut down on crime; politics takes priority over good public policy. Capital imperialism occurs on a domestic level when private firms make decisions about where to invest, or where to close down production. These are often done through markets and boardrooms, which at times work against the interests of politicians. This type is imperialism has been more evident in the post-1970s neoliberal era where finance can move quickly across international boundaries. Capital imperialism has become a defining feature of the Great Recession.

Plan for the Next Two Chapters

The next two chapters will use the method of DHM to understand the processes of imperialism in the 20th and early 21st century. An important caveat to this analysis is that I do not elaborate in much detail on the topic of empire, as the reification of imperialism. An examination of empire often ignores the process, contradiction and tensions in the expansion of the state and capitalism. With the exception of Hardt and Negri’s analysis of Empire, an examination of imperialism captures the process of capitalism more succinctly than one of empire. However, it is worth noting that I do characterize the United States as the hegemon of the capitalist system since the Second World War. John Agnew offers a comprehensive definition based on the work of Antonio Gramsci:

Hegemony is the enrolment of others in the exercise of your power by convincing, cajoling and coercing them to believe that they should want what you want. Though
never complete and often resisted, it represents the binding together of people, objects and institutions around cultural norms and standards that emanate over time and space from seats of power (that have discrete locations) occupied by authoritative actors. America has been the dominant country that perpetuates the current world order. It does so through a variety of methods. Washington has at its disposal access to one of the largest economies in the world where access to its market can enrich a country. America also has the use of the most advanced military in the world. Its culture is promoted by Hollywood and in the popular media, leading citizens in many other countries to identify with America and American-made goods. And although the two are similar, we should not conflate hegemony and imperialism. The United States is the global hegemon that often participates in imperialist expansion, but, as I will explain, it is one of many networks of imperialism. Thus the United States is an important agent of imperialism in the current period, but it is not a necessary part of the capitalist system.

This chapter will start with an analysis of the post-World War I global financial and international system. I will then move to the period after the Second World War, which left two superpowers as the dominant actors in international politics. The geopolitical tension of the Cold War was a defining economic and political feature for the later part of the Twentieth century. From there I will discuss how geopolitical conflict and changes in global production and finance led to the transition towards neoliberalism in the 1970s and 1980s. Harvey defines neoliberalism as:

A theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and

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free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.  

The period of the late 1970s and 1980s initiated a major transformation in production, finance, policies, and ideas that continue to be dominant the contemporary discourse. I will discuss the globalization of finance and production that took place in the 1980s and 1990s. This period unleashed the forces of international finance capital which was strengthened by the opening of China, the fall of the Soviet Union, and the development of the internet. During this period, the United States was on the forefront of the neoliberal project, investing in China, and bailing out countries and firms to prevent periodic crises from spreading. From there, I will examine the post-Dot Com bubble/September 11th 2001 response to the recession by the Bush Administration and how it gave rise to the housing market bubble. However a major issue related to imperialism will be left to the next chapter: the response of the US government to terrorist attacks of September 11th 2001. These chapters are organized historically for clarity, and not to abstract from a broader analysis on imperialism.

Lessons from the Great Depression

This section will outline the major contraction in capitalism that occurred in the 1930s, and the inadequate response of the United States to manage the ensuing crisis. Through the use of historical materialism I will examine the major determinants that exacerbated the banking crisis of 1929 to a worldwide depression by focusing on the role of the United States in global context. This was a period of a high degree of international instability due to the recent

experience of the First World War. Although the United States was a major economic power, it had not yet become the hegemon of the capitalist system, but instead had an ad-hoc role in managing periodic economic and political crises. Also European countries had become reliant on American loans to ensure their economic stability. Without financing from the United States, the German government was unable to pay its reparations. When the crisis hit, the reluctance of Washington to properly mitigate the crisis, the limitations of the gold standard, as well as an already weakened global economy led to a decade-long depression.

One of the determining factors of the depression was the inability of a potentially hegemonic country, the United States, to organize a coordinated response to a crisis in capitalism. The “victors” of the First World War, France and Britain, were economically bankrupt having spent most of their resources fighting the Central Powers. Moreover, the war left Russia in the middle of a civil war. Two defeated empires, Austria-Hungary and the Ottoman Empire, were partitioned along national lines into a series of new countries. For the Germans, the Treaty of Versailles required financial reparation payments (although under relatively flexible terms), as well as recognition that the Central Powers caused the conflict. The only state that could reorganize the system and take a hegemonic position was the United States. Due to the massive costs of the First World War for Britain, America had become the international financial hub of the global economy as well as its main lender. The United States had the potential to take over the role of Britain as hegemon of the capitalist system. Germany defaulted on repaying

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188 The initial payments were set at 132 billion marks or $33 billion for the Germans, but this sum was later cut in half. Moreover, the terms were later changed so the German government could make payments only if it could handle the burden. MacMillan, 480.

its reparations in 1924 leading to hyperinflation. In response, Washington took a leadership role providing loans through the Dawes Plan. The Americans lent money so that Germany could repay its debts to Britain and France, which helped alleviate post-war tensions. This had two significant economic and political implications for the inter-war years: it provided the Germans a period of stability, and it made European prosperity dependent upon the American economy. Thus, when the United States entered a period of crisis in 1929, it had repercussions throughout Europe and the global economy.

In the 1920s, there was a large amount of speculation on Wall Street as many Americans borrowed money in order to invest in the booming stock market. By 1928, the American Federal Reserve recognized that the stock market was crowding out investment in other productive areas and decided to raise interest rates to stem bank loans. In October 1929, the speculative bubble burst. In two days, the stock market lost nearly 30 percent of its value. Many investors could no longer repay their bank loans due to the abrupt decline. But rather than a minor downturn, the stock market did not rebound to its pre-1929 level until the early 1950s. Banks were over-leveraged due to the generous loans they provided and could not pay back their deposits. This resulted in a series of bank runs throughout the United States as citizens worried their savings would be lost due to the collapsing banking system. The liquidity crunch made it difficult for both businesses and individuals to obtain loans, leading to a dramatic decline in employment as

192 Ibid.
the demand for goods and agricultural products collapsed. Unemployment increased dramatically from 3 percent in 1929 to 25 percent by the end of 1930. With the entire American economy on the verge of collapse, the US government under the Republican Herbert Hoover started to intervene in order to alleviate the crisis.

However, the policies of the American government worsened an already precarious economic situation. In response to the banking crisis, the Federal Reserve cut interest rates, but this proved to be an inadequate measure to stem bank failures. The banking system was already far too weakened for a reduction of interest rates alone to resolve the crisis. In 1930 and 1931, the American government could not prevent them from failing, with over 900 banks closing in total at a loss of billions of dollars of deposits. The problem became cyclical: as banks failed, people lost their faith in the financial system, and as people were no longer willing to deposit in banks the situation further deteriorated. Moreover, federal government spending remained constant – there was no fiscal stimulus in order to counteract the collapse in demand and purchasing power, nor bailouts of major financial institutions. To make the situation even worse, in 1930 Congress enacted a series of taxes on imported goods with the Smoot-Hawley Tariff Act. This was intended to bolster the domestic market, but the tariffs closed off markets

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194 Ibid.
198 Bernstein, 13.
199 Ibid., 10.
for American exports as countries retaliated by increasing their own tariffs. Both as a result of the collapse in demand and new tariffs, world trade collapsed from $5.3 billion in 1929 to $1.3 billion by 1933 (figures in 1933 US dollars).\(^{200}\) The failure of the Federal Reserve and the US government to respond appropriately to the crisis led a downturn on Wall Street to become a widespread global depression.

Another major determinant of the depression was the gold standard, which proved to be a major constraint on government spending. The inflation that followed the First World War led France, the United States, Germany and the United Kingdom to return to the gold in order to provide financial stability.\(^{201}\) Germany in particular had experienced a period of hyperinflation after the First World War due to the inability of its government to pay its war reparations. By fixing the value of a currency to gold, the system heavily restricted the growth in the money supply by allowing domestic and foreign investors to transfer their money to gold.\(^ {202}\) During the inter-war years, capital imperialism meant investors had the ability to undermine a country’s financial system if a government tried to devalue its currency or undertook long-term deficit spending. The gold standard led to competition between countries as investors could easily move their assets due to the international acceptance of gold.\(^ {203}\) After the Wall Street crash and subsequent bank failures, the gold standard ended up being a major contributor to deflation. It prevented governments from injecting liquidity in order to prevent bank failures or using protracted deficit spending in order to shore up demand. But more importantly, the gold standard


\(^{201}\) Eichengreen, 9.

\(^{202}\) Ibid., 18.

\(^{203}\) Ibid., 19.
prevented governments from coordinating economic policy and contributed to rising international tension brought on by the depression.

The gold standard proved to be too significant a restriction of government intervention in the economy and a determinant of the depression. By the late 1920s, there had been a substantial increase in economic inequality in the United States. After the war, it became politically difficult to tax the wealthy, and the gold standard made it impossible for countries to engage in deficit spending to promote economic equality. By 1929, the top 1 percent owned 30 percent of all household wealth, a level that was not reached again until the 1990s. Unlike Britain during the pre-war period, the United States government refused to take a leadership role to coordinate countries to alleviate the depression. The United States undermined economic cooperation by introducing tariffs in order to protect domestic industries. American’s trading partners responded by enacting a series of “beggar-thy-neighbour” policies to promote their own industries, undermining global free trade and global economic growth. Internationally, America was willing to finance loans to Europe as long as its own economy was growing, but when the depression hit the entire system collapsed. The Germans depended upon American financing in order to finance their post-WWI reparation payments through the Dawes Plan. By cutting off the money, the US spread the crisis to Europe. In Germany, this led to a massive economic depression with unemployment reaching over 25 percent and GDP contracting by nearly 30

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percent by 1932.\textsuperscript{206} The depression fuelled the rise of radicalism throughout the West and contributed to the rise of Adolf Hitler’s Nazi Party to power in 1933.

In the United States, the depression led to the election of Franklin Roosevelt in 1932 with the support of labour unions, farmers, Southern whites and minorities. Roosevelt promised to reinvigorate the economy and provide relief for the unemployed. His administration began the New Deal which introduced a series of social programs and industrial planning through the National Recovery Act, and the Wagner Act which promoted unionization.\textsuperscript{207} Roosevelt was sympathetic to the plight of the working class and the poor. However, his administration faced opposition from corporate and financial interests:

\begin{quote}
the growth of (noncompany) unions threatened capitalist prerogatives in the workplace, and the disproportionate expansion of industrial as opposed to craft unions united broader sectors of industrial labour than at any previous period in U.S. history. Capitalists (with very few exceptions) regarded all of this as threatening and believed that the federal government was encouraging labour… whose results were not fully predictable or necessarily controllable.\textsuperscript{208}
\end{quote}

American investors and corporate owners were worried about the amount of power unions gained from Roosevelt’s government, fearing that it would undermine profitability and challenge private property. Under Roosevelt’s tenure, unions took an unprecedented amount of power in collective bargaining. Furthermore, the social programs introduced by Roosevelt expanded the role of government in the economy, providing old age pensions, unemployment relief, infrastructure projects, and farm subsidies.\textsuperscript{209} The federal government tried to combat the

\textsuperscript{206} Ibid., 101.

\textsuperscript{207} Theda Skocpol “Political response to capitalist crisis” \textit{Politics & Society} vol. 10 no. 2 (March 1980): 159.

\textsuperscript{208} Ibid., 182.

\textsuperscript{209} Ibid.
deflationary spiral of the Great Depression through job creation programs. Despite the opposition
from a variety of capitalists, Roosevelt began to reorganize the American economy in order to
decrease economic inequality and lower unemployment through the creation of a welfare system.

Much to the disappointment of domestic and international financiers, Congress passed
legislation to regulate the American financial system. In order to prevent further bankruptcies,
the Glass-Steagall Act of 1933 was signed into law. The act founded the Federal Deposit
Insurance Corporation (FDIC) – this was intended to return confidence to the banking system
through a government guarantee that deposits would be safe.\textsuperscript{210} More consequentially, the Act
put in place a firm legal barrier between commercial and investment banking.\textsuperscript{211} Commercial
banks were restricted to day-to-day banking, small loans, and mortgages while investment banks
could trade stocks and bonds. The general purpose was to limit the exposure of people’s savings
– now insured by the government - from the fluctuations of the stock market.\textsuperscript{212} It prevented
bankers from using higher interest rates to attract deposits, and then using that money to invest in
risky business ventures. Roosevelt also started to introduce incentives to increase home
ownership by insuring mortgages for people with low down payments (though this program was
only available to whites), which was later turned into a formal institution the Federal National
Mortgage Association or Fannie Mae.\textsuperscript{213} Roosevelt’s reforms meant nearly every aspect of the
financial system had some form of government oversight, whether in the form of insurance or

\textsuperscript{210} James R. Barth, R. Dan Brumbaugh Jr. and James A. Wilcox “Policy Watch: The Repeal of Glass-Steagall and

\textsuperscript{211} Ibid. 191.

\textsuperscript{212} Ibid, 193.

\textsuperscript{213} Adam Gordon “The Creation of Homeownership: How New Deal Changes in Banking Regulation
Simultaneously Made Homeownership Accessible to Whites and out of Reach for Blacks” \textit{The Yale Law
regulation. In order to enforce these regulations, the federal government established the Securities and Exchange Commission (SEC) to ensure that corporations followed the new laws to give accurate information to investors. The overall aim of the new legislation was to prevent problems related to the Great Depression from recurring and to restore confidence in the economy.

Many industrialists and investors worried that capitalism itself would soon be threatened by the “radical” reforms of the Roosevelt administration.\(^{214}\) Initially the New Deal was met with resentment from moneyed interests in America, to the point of tentatively plotting his overthrow in a failed coup attempt to replace the president with Major General Smedley Butler.\(^{215}\) Yet Roosevelt was far from a revolutionary even by the standards of the era. Countries throughout Europe were becoming even more extreme, either adopting fascism or communism. Roosevelt’s New Deal was a reformist attempt to preserve and regulate American capitalism in order to save the system by preventing the radicalization of the working class and the poor. Regardless of the policies that empowered the working class, Roosevelt was still constrained by the American political and economic system. During the early phases of the New Deal, the Supreme Court ruled that several programs, such as the National Recovery Act, were unconstitutional, and after 1938 a conservative coalition of Republicans and Democrats held the majority of seats in Congress.\(^{216}\) Moreover, due to the inability of the United States to coordinate with Britain and France, even the widespread abandonment of the gold standard between 1933 and 1936 did little

\(^{214}\) Skocpol., 183.


to strengthen the global economy. Roosevelt’s financial reforms were intended to return confidence to the free market rather than alter its role. Though the New Deal may have seemed radical by the standards of the United States in the 1930s, Roosevelt’s policies offered only incremental change to deal with the economic hardships brought on by the Great Depression.

In the area of fiscal policy, the New Deal did not offer the stimulus required to deal with unemployment or to stabilize the financial system. In 1932, Roosevelt had campaigned calling for “the one sound foundation of permanent economic recovery – a complete and honest balancing of the federal budget”. A return to balanced budgets was orthodox thinking at the time. Roosevelt’s administration was reluctant to increase taxes on the wealthy in order to pay for wider economic distribution, which limited government spending and redistribution efforts. Roosevelt became president three years before Keynes’ views were popularized in *The General Theory of Employment, Interest and Money*. Keynes argued governments must produce deficits in times of hardship in order to boost aggregate demand to return the economy to full employment. Once in office Roosevelt introduced several new social programs, but the federal debt remained constant throughout the 1930s at around 40 percent of GNP. This brought down unemployment, but it still remained high compared to the pre-depression era. The New Deal pushed unemployment down from its height of 25 percent in 1933 to 15 percent in 1937.

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217 Eichengreen, 347.


219 Ibid., 475.


221 Eichengreen, 205.

these policies were hampered by the conservative coalition elected in the 1938 mid-terms whose austerity measures pushed the jobless rate back to 19 percent by 1939.\textsuperscript{223} It would take the Second World War before the United States returned to full employment.

The inability of the United States to take a leadership role to mitigate the economic crisis of the Great Depression led to a global depression and the outbreak of the Second World War. Prior to the First World War, Britain coordinated the global economy, acting as hegemon. With its empire fragmenting and the country bankrupt, the United Kingdom did not have the political will or economic ability to foster the international consensus required to prevent another global conflict.\textsuperscript{224} The only country that had the economic strength to underwrite the international financial system in the interwar period was the United States. It did so intermittently in the 1920s and failed completely to react to the emerging crisis is capitalism in the 1930s. In 1933, there was an international conference held to find consensus to deal with the crisis by regulating currency exchanges.\textsuperscript{225} Rather than taking a leadership role, the American government acted as obstructionists, refusing to take part in any agreement, rendering the conference futile.\textsuperscript{226} This was due to competing imperialisms. America had the capability to act as the hegemon of the international system, but geocapital imperialism took precedent - domestic political and economic interests coincided to prevent it from being the dominant country. The US was far more concerned with its own short-term economic gain regardless of the consequences for the

\begin{flushleft}
\textsuperscript{223} Ibid.
\textsuperscript{225} Ibid, 198.
\textsuperscript{226} Ibid, 205.
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international community. With the prospects for profitability low and states closing off their economies to foreign trade, global capital investment ground to a halt, worsening an already dire situation.

The Great Depression of the 1930s was the result of a global reorganization of capitalism due to the First World War and a major speculative bubble in America. The United States, now central to the global economy, refused to coordinate a coherent response to the crisis, leading to a protracted depression in the global economy. There were several determinants of this lack of coordination. The first was due to the orthodox political thinking of the time – the American government tried to keep deficit spending low and only incrementally increased regulation of the economy. The second determinant was the way the monetary system was organized immediately after the First World War. Countries were worried about inflation and returned to the gold standard, thereby heavily constraining liquidity and reining in government spending. When Wall Street collapsed the gold standard proved to be a major barrier to government intervention and international cooperation. The historical legacy of American scepticism towards involvement in Europe led to “beggar-thy-neighbor” policies. By the late 1930s, Roosevelt began to recognize that America had to play a leadership role in international military, political and economic affairs. But by this time, the damage was done. It was far too late to avert the Second World War.

The Post-WWII American New Order

After the Second World War, America was in an unprecedented superior position vis-a-vis the other former belligerents. Moreover its leaders had the political will, due to international
competition, to act as the hegemon of the capitalist system. The other remaining superpower, the Soviet Union, had lost millions of people in a war fought over its home territory. The two objectives would become the priority of the United States government in the post-war period: to prevent the spread of communism in Europe and elsewhere and to open new markets by free trade. As the hegemon of the capitalist system, the United States government worked to manage the capitalist system, intervening when the interests of investors and corporations were threatened. Yet the Americans were also compelled to prevent the expansion of the Soviet Union. As elaborated upon in Chapter 2, the American fear of Communism led to the domestic rise of McCarthyism, as the government tried to eliminate subversive people in the media, academia, and in government. These two features would be the main determinants of the post-war system: America had to prevent the spread of the Soviet Union, while, at the same time, promoting the expansion of capitalism. Although these two tasks were often complementary, as I will discuss, there arose contradictions between the containment of Communism and the expansion of markets.

In order to prevent another catastrophic global depression and major international conflict, the United States along with Britain as a junior partner instituted an international regulatory regime. The agreement reached at Bretton Woods, New Hampshire (called the Bretton Woods system) regulated finance through the International Monetary Fund (IMF) by pegging currencies to the US dollar, which then could be exchanged for gold. The system was intended to prevent massive currency fluctuations from speculators, yet still allow countries flexibility to devalue in case of a crisis. To further ease a balance of payment problem, the IMF provided

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short-term loans to countries and the International Bank of Reconstruction and Development (later the name was changed to the World Bank) was put in charge of rebuilding Europe. Each of these institutions was put in place due to the experience of the depression. The goal was to ease the business cycle to produce full employment, to prevent countries from defaulting on their debt, and to lower tariff barriers to promote and expand free trade. The Americans were the undisputed hegemon in the capitalist system and the new global order reflected their values.

While trade barriers were to be lowered and Europe rebuilt, investment, capital, and finance were to be highly regulated. As John Maynard Keynes stated “control of capital movements” would be a “permanent feature of the post war system”. To this end in 1947, many western countries signed the General Agreement on Tariffs and Trade (GATT) which through a series of agreements liberalized trade and reduced tariff barriers. In response to the post-war devastation, the United States introduced the Marshall Plan to aid in the reconstruction of Europe. In 1951, in order to foster free trade and to prevent France and Germany from having sole ownership of the materials needed for war, the European Coal and Steel Community was adopted- a precursor to the European Union. The post-war period was one where America used its position to open markets through the use of incentives, both through international organizations and through aid. Due to the relative devastation of the rest of the world, America could dictate the shape of new international order. Trade became progressively liberalized, with America as a central producer, lender and consumer in the global capitalist system.

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There had been a significant amount of technological development in the areas of medicine, industry, and in air and motor vehicles from Germany, the United Kingdom, France and the United States.\textsuperscript{230} With the onset of the Second World War, government had invested heavily in military technology and industrial infrastructure, with the United States winning the race to develop the first atomic bomb. Consequently, the technologies that were developed during the war ended up having numerous civilian applications, from producing relatively inexpensive automobiles to advances in air transportation and travel.\textsuperscript{231} America’s war experience left the country with control over most of the world’s money and gold reserves. As Arrighi discusses:

\begin{quote}
As a result of… its trade and current account surplus, the United States came to enjoy a virtual monopoly of world liquidity. In 1947, its gold reserves were 70 percent of the world’s total. Moreover, the excess demand for dollars by foreign governments and businesses meant that US control over world liquidity was far greater than implied by this extraordinary concentration of monetary gold.\textsuperscript{232}
\end{quote}

By almost any measure, America was in the best position relative to the other allies. The war had left Europe in ruins. Britain was bankrupt, France had been occupied from 1940 to 1945 and the Soviet Union had lost nearly 30 million people due to the war. With its strong and productive industrial base, a plethora of new technologies, and its mass reserves of capital, the United States was in the unique historical position to dictate the terms of the post-war order. The US began to govern the international economy according to its own preferences in order to rebuild Europe, prevent the spread of Communism, and open markets to trade.


\textsuperscript{231} Ibid., 2.

The rebuilding of Western Europe and Japan became of paramount importance for Washington. With the USSR an aggressive and expansionist superpower, there was an immediate need ensure the survival of capitalism in Germany, France, the UK and Japan. A result of American loans was an “economic miracle” in Germany and Japan. This was partially determined by macroeconomic factors such as access to the wealthy US consumer market, while maintaining a favourable exchange rate.\(^{233}\) There was also a shift throughout western countries towards consumer-oriented economies. Germany and Japan were also helped by domestic factors since both countries had access to a pool of highly educated and skilled labourers. A corporatist model of industrial organization brought capital and labour together in policy-making in Germany. In Japan, a system of worker patronage developed that guaranteed lifetime employment in order to ensure the loyalty of workers.\(^{234}\) Indeed, the period from 1946 to 1971 was the pinnacle of the “historic compromise” between capital and labour in most developed countries.\(^{235}\) Although trade was becoming increasingly free, foreign investment was highly regulated to prevent competition between countries for finance. Moreover, sectors of the economy in Western Europe and North America were nationalized in order to meet the demands of the public.\(^{236}\) States provided more comprehensive social insurance programs, such as old age pensions, universal healthcare, and unemployment insurance - though this varied from country to country. It seemed that capitalism was becoming increasingly dominated by government intervention.


\(^{234}\) Ibid., 44.


\(^{236}\) Ibid.
There were geopolitical reasons behind the United States replacing Britain as the dominant capitalist country after the Second World War. There was a threat from the Soviet Union which had occupied most of Eastern Europe and sought to increase its sphere of influence. Devastated by two world wars, Britain no longer had the financial and military capacity to ward off Soviet expansionism, which became apparent when America took over Britain’s role in the Greek Civil War in 1946.\textsuperscript{237} The United States alone had the military and economic resources to prevent the spread of international communism. Prior to the Second World War, the United States government was reluctant to involve itself in European affairs. With the onset of the Cold War, the American military became necessary to protect financial and political interests against the Soviet Union. America formed an international defensive pact, the North Atlantic Treaty Organization (NATO), which formalized a protective military alliance with Western Europe against the Soviet Union. Also the United Nations was established as an intergovernmental institution committed to global peace and security. The United States had become the guarantor against Soviet expansion, contributing to proxy wars in Korea (1950-1954), Vietnam (1955-1975) and Afghanistan (1979-1989). While at the same time, the US propped up regimes with military and foreign aid—at times unsuccessfully— in Cuba and later Iran. The policy of America and its allies was one of “containment” to prevent Soviet influence from spreading globally and undermining US economic and security interests.\textsuperscript{238} Indeed, the Cold War conflict became one of the most prominent geopolitical features of the twentieth century, with the US and USSR competing for allies, territory and spheres of control with nuclear war a constant threat.


During the Cold War many countries instituted Marxist-Leninist state control of their economy, though not all the countries that did so allied with the Soviet Union. The world market was divided between free market economies and statist economies in the model of the USSR. Eastern Europe, many parts of the Middle East, China in 1947 and India in 1949 adopted central planning and state control of the economy – although India remained a democratic country. After the Second World War, the former Japanese colonies in South East Asia were divided between the allies, and the bankrupt British and French ended formal colonial rule of India and most African states.  

Many countries followed the Soviet model of planned economies after they were decolonized by Britain and France. This formal decolonization and socialist central planning effectively limited the pool of global labour, closing off many countries from the global economy. Decolonization was a reflection of the American cultural aversion to formal empires as well as the decline in military and economic power in Britain and France. Although the United States often dictated the political regime’s affiliation and economic system, and intervened only when its interests were threatened, it left day-to-day management to local elites. Washington didn’t care if a regime was authoritarian, or even if it perpetuated human rights abuses, such as in Saudi Arabia or the Philippines, so long as it did not ally with the Soviet Union.

The Korean War was a major military conflict of the Cold War and serves as an example of a country that has gone through geopolitical, then geocapital imperialism. Up until the end of the Second World War, Korea was a Japanese colony. After the war, it was partitioned along the 38th parallel between the Democratic People’s Republic of Korea (DPRK) in the North, a regime

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installed by the Soviets, and the Republic of Korea (ROK) in the South a regime created by the western allies. With each side committed to reunification, North Korea’s leader Kim Il-Sung invaded the South after securing arms from the Soviet Union and personnel from the newly communist People’s Republic of China (PRC). The ROK was short on war materials and had poorly trained troops compared to the North Koreans who had fought in the Chinese civil war. The South would have almost certainly lost if it did not have outside intervention from the United States. At the time, the American government had most of its energy and resources devoted to rebuilding Western Europe, and did not want to devote the time nor military resources to preserve the ROK – the US Congress even defeated an aid package for South Korea in 1950. Though pressure was placed on the American government to act, it was reluctant to get involved in Korea due to its own domestic politics. Eventually though, with the backing of the United Nations, the United States sent forces into Korea in order to prevent the peninsula unifying under the Communists. The war went on until a truce was signed in 1954 with Korea permanently divided between the North and South.

Although the United States recognized it had an economic and geopolitical interest in preventing the expansion of the Soviet Union in Europe, South Korea was a different situation altogether. There were few economic incentives to invest in South Korea for the United States. The Americans were reluctant to send forces to protect the ROK as the country was poor,

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242 Ibid.
243 Ibid., 36.
politically unstable and had few natural resources.²⁴⁴ Even losing the peninsula to communism was not, at first, important to Washington. However, once the United States realized there was foreign involvement supporting the DPRK, the need to counterbalance the Soviet Union was a major determining factor behind American intervention. The Korean War is an example of geopolitical imperialism. If the United States did not get involved, the South would have been overrun by the well trained and better armed military of the DPRK. The intervention was not motivated by an accumulation strategy, in fact, quite the opposite, there were few direct profits to be made in the impoverished South Korea. It was the involvement of the Soviet Union and China that compelled the United States to send in its military. After the war, the Americans supported the regime in South Korea by placing troops along the 38th parallel and with military aid. The ROK government tried an import-substitution industrializing (ISI) strategy by placing tariffs on imports in order foster domestic industry. This policy failed and the Korean economy stagnated in the 1950s leading to a military coup in 1961 – though the dictator Park Chung-hee was an ally of the United States.²⁴⁵

By the 1960s, the investment of American money led to a transition from geopolitical to geocapitalist imperialism in South Korea. With nearly $4.2 billion in economic assistance to South Korea between 1952 and 1969, the Park government started to invest in industries that exported to the American market. The Koreans started with low-end goods, promoted strong successful national corporations, and eventually invested in heavy industry.²⁴⁶ The pace of South


²⁴⁵ Ibid., 16.

Korea’s economic development was impressive, moving to higher tech industries as wages and the standards of living increased throughout the 1970s.\textsuperscript{247} Thus, during the 1970s, South Korea was the focus of geocapitalist imperialism. Unlike other developing countries in much of Africa, the United States had a strategic reason to prevent South Korea from collapsing due to economic stagnation. It provided the ROK with aid to construct its domestic industries, allowed it to have protective barriers around key corporations, and access to the wealthy American consumer market. At the domestic level, the Park government provided the stability to build an industrial base. So though initially this was done for geopolitical reasons, South Korea eventually became an important provider of cheap labour and imports for the United States, integrating the country into the capitalist system.

American geocapital imperialism and geopolitical imperialism defined the post-war era, as the United States needed to expand markets as an accumulation strategy and to counterbalance the USSR. Geocapital imperialism was often implemented through foreign aid or institutional channels such as through the IMF, the World Bank or bilateral agreements. The immediate post-war period sought to limit the ability of finance to move between states, with a high degree of regulation and oversight. When foreign capital was invested, the American government protected it through the use of its military. Washington propped up regimes that were sympathetic to western corporations. In the case of Cuba, American firms had had invested more than in any other Latin American country prior to the revolution.\textsuperscript{248} The United States had invested over $2

\textsuperscript{247} Kwon, 25.

billion (in 1959 figures) in Cuba in agriculture, mining, and infrastructure.\textsuperscript{249} This was a large sum of money in a country relatively close to the US mainland. When a revolution occurred in 1959 with Fidel Castro’s communists overthrowing the regime in Cuba, the interests of American capital and the US government coincided. The Americans tried, but failed, to overthrow Castro during the Bay of Pigs invasion in 1961. The Cold War context constrained military options for the United States with Cuba. The USSR became a guarantor of Cuba’s independence, even to nearly leading to all-out war during the Cuban Missile Crisis. Eventually the United States brokered an agreement with the USSR that prevented an invasion of Cuba. The demands of capitalists came into conflict with the geopolitical tensions of the Cold War. Although there was an initial attempt to reconcile capital interests in Cuba through geocapital imperialism, the possible retaliation from the USSR prevented a broader response from the United States.

The reinstallation of the Shah of Iran was another example of geocapital imperialism. The problems began when Mohammad Mosaddegh was elected Prime Minister of Iran in 1951. Up until that time, the United Kingdom had controlled Iran’s oil extraction and exports. Upon his election, Mosaddegh promised to nationalize the industry thereby threatening Britain’s economic interests. Initially, at the time the Americans had access to enough oil, so the Truman administration was willing to come to an agreement with the Mosaddegh government in Iran.\textsuperscript{250} However America’s policy changed when pressure from the United Kingdom, and the fear of coup d’état from the Soviet-backed Iranian communists, led the Eisenhower administration to


reinstall the Shah.\textsuperscript{251} This regime would ensure that Iran’s oil remained largely private and that most of the wealth would go to London, and not for the Iranian people. A major reason for America’s change of policy was due to its previous experience with the Soviet Union. The USSR had backed Kim Il-Sung in Korea, and there was a possibility of Soviet involvement in Iran. Yet again, this was an example of geocapital imperialism as the interests of business and the security threat of the Soviet Union provided an incentive for the involvement of the United States. America continued to support the Shah throughout the next two decades until the revolution in 1979 when the Ayatollah overthrew the regime and instituted an Islamic Republic.

Although the interests of American and British capitalists coincided with the need to counterbalance the USSR in the case of Cuba and Iran, the war in Vietnam was a protracted conflict that was not exclusively determined by an accumulation strategy. Again the politics of the Cold War was a significant factor behind American military intervention. Geopolitical imperialism in Vietnam was the response to the expansionism of the Soviet Union. The economic motivations for expansion into Vietnam are less than compelling. Mainly, Vietnam produced agricultural products, particularly white rice\textsuperscript{252} – hardly a vital economic resource for global production. Moreover, there were cheaper and better skilled workers in the recently conquered Japan for Vietnam to be needed as a labour market. So while the material interests of capitalists may not have been the main determinant in this conflict, it is not that it wasn’t a factor at all. Many American defense firms profited from the mass investment of the United States

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\textsuperscript{251} Ibid.
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government due to the conflict, as the government provided billions for arms and weapons.\textsuperscript{253} The war provided money for the private military establishment in the United States, but there were also many indirect industries that profited from the war.\textsuperscript{254} So it cannot be discounted the war in Vietnam benefited domestic industries, however, the United States economy as a whole was not strengthened from the war as there were little profit to be made in Vietnam to American firms. In the 1960s, Vietnam was a poor agrarian country used mainly by the French for raw materials and minerals – hardly a motive for the United States government to spend the $101 billion cost of fighting the Viet Cong ($680 billion in 2008 dollars).\textsuperscript{255} A major reason for the length of war was geopolitical – as a proxy war against the Soviet Union.

Despite some firms and corporations profiting from the war in Vietnam, the protracted and expensive conflict was detrimental to the American economy. The low unemployment, liberal domestic monetary policies, and massive social and military spending led to inflation reaching 10.6 percent in the second half of 1966, and remained around 5 percent throughout the remainder of the 1960s.\textsuperscript{256} Compared to the higher inflation rates in the 1970s this may not appear to be problematic, but it was coupled with the decline of public support for the war in Vietnam. There were few economic and even fewer political reasons to continue the war in Vietnam outside of the Cold War context.\textsuperscript{257} The conflict ended up costing Lyndon Johnson re-


\textsuperscript{254} Ibid., 569.


\textsuperscript{257} Ibid., 39.
election in 1968 as he decided not to run for president again due to his unpopularity. In addition, the inflationary consequences of the war and the simultaneous attempt to conduct a domestic War on Poverty decreased the overall economic competitiveness of American industries. The government spent billions on the war at the cost of thousands of lives with little profit to show for the conflict. This war, along with many other Cold War proxy wars, is an example of geopolitical imperialism during the 1960s and 1970s. The Cold War was the main motivation behind the American involvement in Vietnam. The determinants for the conflict are not exclusively for the purposes of accumulation. In fact, quite the contrary, this type of imperialism may run counter to the demands of local and international capital. The economic consequences of the policies during the Vietnam conflict had significant implications for the United States and the global economic system.

In the post-World War II period, the United States through geocapital imperialism constructed a western economic and military order that sought to expand trade and markets while at the same time preventing the spread of communism. Washington needed to rebuild the economies in Western Europe and Japan to have markets to sell goods and fully entrench the ideals of a capitalist democratic order. This aligned with the goals of the military to prevent the spread of communism. Where American and western economic interests were not threatened, such as in the case of Korea or Vietnam, there was an initial reluctance of the United States to commit resources to prevent their collapse. Once America committed its forces, as it continues to do in South Korea today and in Vietnam until the fall of Saigon, it becomes increasingly difficult to withdraw its troops. Even when there were tensions between the interests of capitalists and the government, international competition often led Americans to use the military to combat the
Soviet threat in proxy wars. Panitch and Gindin\textsuperscript{258} and David Harvey argue that markets must forcibly expand through the use of the United States government in order to overcome the internal contradictions in capitalism. Certainly this does characterize many conflicts during the Cold War, but this assumption downplays a key systemic pressure that shaped a large portion of America’s foreign policy. The United States was involved in conflicts that had little foreseeable medium or short-term economic gain. In the case of Vietnam, there was an abundance of cheap labour in Japan and Western Europe, and the incentive of capturing Vietnam’s rice fields is uncompelling as necessary to the expansion of capitalism in comparison to the expense of the conflict. Washington’s commitment of resources in the long run ended up harming the American economy.

The history of American involvement in Korea and Vietnam suggests capitalism is not the sole driving force behind the conflicts. This implies the two processes of geopolitical and geocapital imperialism were interrelated in the postwar system but vary in degree, time, and place. The underlying determinants of imperialism shifted as the geopolitical and economic demands of capitalism changed. This is most obvious in the Korean case where the Cold War was the main factor behind American involvement, but as economic aid continued, and South Korea was integrated into the economic system, geocapital imperialism became the major determinant. Of course, both forms of imperialism were influenced by American culture and values – this was a distinctly American global order. Innovations in marketing and consumer goods saw the spread American television, movies and advertising in Western Europe and

\textsuperscript{258} Leo Panitch and Sam Gindin, 14.
Japan. American antipathy towards communism and radical labour movements influenced its dealings with Stalin and Mao. During the 1950s, the red scare led many to fear communists had infiltrated the US government, businesses and the entertainment industry. This was based on recent experiences with the Soviet Union: it had stolen plans to produce their own nuclear weapon and was supporting communist parties throughout the world. The anti-Soviet rhetoric was also a useful method to divide the world between those that aligned with the Western capitalist order and those that did not.

From the post-war period until the early 1970s, the system of regulated finance, free trade, consumerism and rising wages paved the way for long period of widespread sustained economic growth in the West. The American-led economic system was extremely successful in rebuilding Western Europe and Japan after the Second World War. Capital was able to find profit in new consumer economies in Europe and South Asia, while at the same time, wages and union movements gained strength. Due to the geopolitical and economic threat of communism, the United States constructed a post-war western order against the Soviet Union. The USSR posed an existential threat to the West, and acted to counter the expansion of the United States and global capitalism. In the 1960s, however, the burden of fighting a proxy war in Vietnam along with the increased foreign competition led the United States to begin to undermine the regulatory framework that underscored the global economy. As I will discuss in the next section, these domestic and international barriers to capitalism began to falter, and along with a prolonged period of economic crisis in the 1970s, created an economic, political and ideational shift that led to the emergence of capital imperialism.

The 1970s: The Beginning of the Shift To Neoliberalism

The 1970s marked the beginning of the end of the post-World War II system of embedded liberalism. Liberalized finance was the norm prior to World War I, with international finance largely mobile, unregulated, and driven by market demands. The interwar years and the Great Depression were decades of economic chaos, with rising tariff barriers and global finance grinding to a halt. Financial markets during the immediate post WWII period were regulated for the most part. But in the late 1960s various contradictions began to break down the barriers put in place to prevent capital imperialism. The system started to fracture in the hub of the international capitalist system: the United States. Out of slight quantitative changes that occurred in the 1960s and 1970s in the US, emerged a new economic order – a qualitative transformation of the entire global economy. Indeed, it was America’s rejection of embedded liberalism that launched the deregulation of finance. America tried to manage this crisis by lowering the economic and political barriers put in place to restrain financial capital. At times these barriers were gradually reduced, while at other times it was done forcefully, allowing for the re-emergence of capitalist imperialism on a global scale. As I will discuss, the transition to neoliberalism was partially determined by transformations in information and communication technologies that made it possible for capital to flow across

260 M.C. Howard and J.E. King, 11.


262 Ibid., 3.
borders with greater ease at lower costs.\textsuperscript{263} The ideas of Hayek about the reduced role of the state had been around since the 1930s and 1940s, yet they became prominent in the late 1970s due to the economic problems faced by Western countries. So although this new technology allowed money to move around the world with fewer restrictions, it was one of several significant determinants that began in the 1970s that led to neoliberalism and the re-invigoration of the process of capital imperialism.

The contradictions in the post-war order started to appear as America began to lose its economic competitiveness. The post-war economic system proved to be extremely successful in rebuilding the economies in Western Europe and Japan. As these countries regained their economic competitiveness, American goods could no longer dominate the market, nor could the US dollar be easily devalued due to its transferability to gold. The post-WWII system to rebuild Europe worked incredibly well, with West Germany becoming a major economic power. Believing the United States unable to limit its deficits, West Germany and France started to convert their reserves into gold undermining the American dollar’s place in the system. Moreover, under Lyndon Johnson, the United States initiated the “Great Society” programs, while, at the same time, pouring resources into the expensive Vietnam War. The American economy started to experience 5 percent inflation per year, with the Nixon administration imposing wage and price controls in the early 1970s.\textsuperscript{264} Due to inflation, American corporations further lost a competitive edge to Europeans and the Japanese. Furthermore, the American economy had trouble attracting investment capital due to regulations on foreign investment. One


\textsuperscript{264} Campagna, 39.
of the major consequences of the post-war years was the transfer of money from public control and oversight to private firms. Washington started to lose control of capital as investment moved to companies in Western Europe. As private capital increased in European firms, it was often outside the American regulatory framework. For example, both Petrodollars and Eurodollars were inaccessible to the American economy due to restrictions on the movement of finance.

There were a series of international and domestic problems at the end of the 1960s that led the American government to withdraw from the system of capital controls. In 1971, the Nixon administration decided to unilaterally end the US dollar’s convertibility to gold as a method to regain America’s competitiveness. In the early 1970s, the United States had to contend with both a budget and balance of trade deficit. The dollar’s convertibility allowed governments to trade their cash reserves should America face a prolonged period of economic instability. Unlike the contemporary period, the dollar’s convertibility and capital controls made American deficit financing difficult and harmful to the overall economy. Though the United States was not the first country to float its currency - West Germany did so in 1971 - but when America did so, it undermined the entire system. Nixon’s decision was a method to attract capital and to regain the competitiveness the US had lost. By 1973 most developed countries had floated their currencies; this was quickly followed by a flurry of “competitive deregulation” of the financial system in order to attract money. The barriers put in place after the Second World War for finance were taken apart as each country competed for money. Since finance could flow

265 Arrighi, Adam Smith, 308.
266 Ibid.
268 Ibid., 12.
anywhere unimpeded by oversight from government, there was an incentive to make domestic economies attractive for international investment. Capital could move with increasingly fewer restrictions, and with advances in communication technology it could rapidly leave a country creating a panic – this would be a key feature in the global economy after the abandonment of the system of currency controls and started the new phase of capital imperialism.

The United States government left the regulatory regime it was central to establishing and maintaining. The decision to abandon the dollar standard was intended to increase the competitiveness of the United States by lowering the value of its dollar. With fewer regulations, the Americans could attract foreign capital from Europe and the Middle East. The decision from the Nixon administration was effective in strengthening the American economy in the short-term. As expected, foreign capital invested heavily in the United States, leading to an increased demand for American goods. By 1973 America’s current account deficit had largely been eliminated as European currencies strengthened against the dollar. Moreover, suspending convertibility launched a series of industries that specialized in foreign investment, risk management, futures and currency speculation. Since currencies could fluctuate in a single day, these industries worked to hedge against the risk in order to mitigate market volatility. In 1972, the International Money Market (IMM) opened, trading futures contracts on numerous

269 Ibid., 13-14.

270 Ibid., 112.

271 Ibid., 113.

currencies, such as the US dollar, the peso and the yen.\textsuperscript{273} These industries provided financial firms a powerful voice over the economic policies of the state, threatening investor retaliation should policies be unfavourable to the interests of capital. The financial industry became even more important as countries progressively reduced capital controls and foreign investment regulations in the 1980s.\textsuperscript{274} But more importantly, the era of institutional cooperation and coordination on currencies came to an end, as states competed against each other for investment. Although the United States retained its position as the central economy in the global system for the time being, the market could penalize countries that deviated from the demands of international finance. In effect, capital imperialism had started to return to the international economic system and began to restrict the ability to national governments to regulate their economies.

If the floating of currencies started the transition towards neoliberalism, it was aided by the economic turbulence in the 1970s. From the mid-1970s to the early 1980s, the United States went through a period of stagflation – high unemployment with high inflation. Though the causes of stagflation are widely contested and poorly understood, one of the main determinants was the oil embargoes of 1973 and 1979. The oil embargo from the Organization of the Petroleum Exporting Countries (OPEC) was a response to America’s support of Israel in the Yom Kippur War.\textsuperscript{275} After Israel was invaded by Syria and Egypt in October of 1973, the United States supplied the Israeli army with weapons. In response the OPEC countries cut off oil


\textsuperscript{274} Ibid.

supplies to countries that supported Israel. By the 1970s, the American economy had become increasingly dependent upon cheap imported oil from the Middle East. Due to the embargo, global energy prices tripled and immediately led to a recession that lasted until 1975.\textsuperscript{276} Though inflation in the United States had already reached 5\% by the late 1960s, the decreased supply of oil led to a price increase in almost every major sector of the international economy, pushing inflation as high as 10 percent by 1975.\textsuperscript{277} By the second oil shock of 1979 that followed the Iranian revolution, the American economy had already experienced a decade of high unemployment and high inflation.\textsuperscript{278} The overthrow of the Shah led to another embargo against the United States, leading to yet another energy crisis in the United States.\textsuperscript{279} Along with the embarrassing Iranian hostage situation, the prolonged period of economic stagnation led many to start to challenge the orthodoxy of the post-war consensus.

Another determinant of inflation was the power of labour movements. Labour unions were capable of gaining higher wages, more benefits, and greater regulation in the workplace.\textsuperscript{280} The strength of labour in the 1960s and 1970s led to increased production costs and the scope of the welfare state, undermining American competitiveness in the face of foreign competition.\textsuperscript{281} By the late 1960s and early 1970s, unions began to strike with greater frequency and militancy.

\begin{itemize}
\item \textsuperscript{276} Ibid., 15
\item \textsuperscript{278} Ibid.
\item \textsuperscript{279} Ibid., 270
\item \textsuperscript{280} David Harvey, \textit{The New Imperialism}, 63.
\item \textsuperscript{281} David Harvey, \textit{The New Imperialism}, 61.
\end{itemize}
demanding higher wages and better working conditions.\textsuperscript{282} As the economic situation started to worsen through the 1970s workers became more militant in their aims.\textsuperscript{283} The success of labour unions contributed to inflationary pressures in the 1970s by driving up prices to pay for better wages and benefits. The restrictions on foreign investment made it difficult for capital to invest in low-wage countries; profits began to decline as American labour drove up the cost of production.\textsuperscript{284} The post-war accumulation strategy in the United States was based upon a consensus between labour and capital to share the outcome of economic growth. This relied upon profitability, which was threatened by the strength of unions, the supply shock of two oil crises, competition from Europe and Japan, and the problems associated with prolonged inflation.

By floating the US dollar to overcome one contradiction in capital, Nixon started a long-term process of continual financial deregulation that fundamentally undermined the post-war economic order. Though it may have started by the abandonment of the gold standard to regain American competitiveness, it had unforeseen consequences for both the American and global economy. Capital imperialism was no longer limited within the boundaries of a state, but increasingly finance could go almost anywhere profitable. Financialization may have been a method to prolong American hegemony, but by the 1980s, the financial industry began to more assertively shape the policies of the United States government. The energy crisis led to almost ten years of high unemployment and inflation in America. Profitability was threatened and it seemed that the Keynesian policies of government intervention and regulation could no longer


\textsuperscript{283} Ibid., 30.

\textsuperscript{284} Howard and King, 208
ensure high standards of living. In response to the inability of governments to adequately deal these economic problems, by the late 1970s and early 1980s, countries throughout the developed world elected politicians that promised a return to prosperity through reactionary economic and political platforms.

**Neoliberalism and Capital Imperialism Come of Age**

Though the election of Margaret Thatcher in Britain in 1979 and Ronald Reagan in 1980 is often viewed as the start of neoliberalism as a political force, the transition was already well under way by that time. Nevertheless, it was during the 1980s that capital imperialism became a dominant process in the global economy. Reagan and Thatcher argued government intervention was the cause of the economic problems of the 1970s and that a reduction in public spending would lead to prosperity. They believed in the economic philosophies of Fredrick Von Hayek and Milton Friedman where the market would be guided by supply and demand. While the politics of the Reagan administration were important in ending embedded liberalism, it was not the only determining factor that led to the new phase of capital imperialism. There were technological and political shifts that led to the opening of large pools of cheap labour in China the 1980s and later India in the 1990s. Moreover, innovations in shipping and communications technology became cheaper allowing for greater outsourcing, leading to just-in-time inventory control systems and international production chains. There were broader systemic changes in the global economy that occurred along with neoliberal policies being instituted throughout the

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285 David Harvey, *A Brief History*, 24
West. Altogether, these major changes in politics, economics and technology led to the return of capital imperialism as a systemic expansionary force.

The United States government instituted a series of policies to weaken the power of unions and retrench the welfare state in order to make the business climate more favourable for investors. This initiated a process that would become commonplace: the government would deregulate or privatize a sector of the economy, private financiers would invest heavily, then its value would collapse requiring public money to prevent a broader crisis. Although Reagan and Thatcher are often viewed as the catalysts for deregulation and “the return of the market”, it was first tried in South America. The “success” of these policies spread throughout the West in the 1980s and led to an expansion of the wealth of financiers and investors at the expense of the public and labour. By the 1990s, neoliberalism would become the new orthodoxy for left and right wing parties through the developed world.

The first significant post-war experiments with neoliberalism were under the rule of the Chilean dictator Augusto Pinochet. In the 1970 election, Salvador Allende of the Socialist Party led the “Popular Unity” coalition of socialists, communists, and social democrats to power. Allende instituted a series of policies to nationalize major industries such as the American-owned telecommunications industry without compensating Chilean and American investors. The Americans feared, realistically or not, that Allende would ally with the USSR, creating a domino effect for communism in South America. With both the profitability of investors under threat and the possibility of Chile falling in line with the Soviets, Washington took measures to


287 Ibid.,
undermine the Allende government. The United States vetoed loans to Chile from multinational financial institutions, and American banks cut off short term credit, leading to hyperinflation due to Chile printing money to meet its foreign obligations.\footnote{Peter A. Goldberg “The Politics of the Allende Overthrow in Chile” Political Science Quarterly. Vol. 90, No. 1 (Spring, 1975): 108-109.} This sparked an uprising from Chile’s middle class due to the prospect that they would lose their wealth from the inflation as well as from Allende’s perceived association with the Soviet Union.\footnote{Ibid., 107.} By 1973, the situation had become critical as the CIA, Chile’s middle class, and the military started to undermine the authority of regime. These groups finally decided they had enough of Allende’s radical reforms replacing him with Augusto Pinochet, a general in the Chilean military, on September 11\textsuperscript{th} 1973.\footnote{Ibid., 113.}

After Pinochet’s overthrow of Allende’s Popular Unity government, the new regime hired a group of economists influenced by Milton Friedman known as the “Chicago Boys”.\footnote{Angelo Codevilla “Is Pinochet the Model?” Foreign Affairs. Vol. 72, No. 5 (Nov. - Dec., 1993): 134.} In order to eliminate the policies of the Allende’s regime, these economists proposed a programme of radical reforms of market deregulation for the Chilean economy. These recommendations included reducing the size of government, lowering tariff barriers to introduce foreign competition, and privatizing public industries and social programs such as pensions and healthcare.\footnote{Ibid.} The regime instituted the recommendations on an ad hoc basis, with the first set of liberalizations in 1975, then again from 1978 to 1981.\footnote{Ibid., 137.} The overall goal of Pinochet’s
government was to integrate Chile into the global economy, clamp down on inflation by linking
the peso to the US dollar, and loosen trade and financial restrictions. Unlike democratic regimes,
Pinochet had complete freedom to repress opposition to the regime, committing thousands of
human rights abuses against dissenters. The economic policies made some in Chile very wealthy,
namely entrepreneurs, industrialists and the middle class, yet it led a substantial increase in
inequality as 3 to 4 million people fell into poverty due to the chronic underfunding of social
programs and highly regressive tax system.294 The dramatic increase in poverty and inequality
would become commonplace in countries that adopted neoliberalism in the 1980s: people on the
margins of society would bear the brunt of market liberalization as states reduced taxes and cut
back or abolished social programs. The wealthy would benefit from a reduced tax burden,
cheaper labour-power and gain lucrative investment opportunities.

Under the Pinochet regime, capital imperialism began to reshape the Chilean economy.
The liberalization of finance led to a massive amount of foreign investment in Chile. The
deregulation of the banks coupled with lax government oversight and low reserve requirements
led to an explosion of private lending to both business and individuals.295 This led to a
contradiction in the Chilean economy. In 1982 faltering commodity prices along with
overleveraging led to a debt crisis in Chile as banks began to fail.296 Along with the rest of South
America, Chile experienced a severe recession as unemployment increased to nearly 30 percent

295 Raphael Bergoeing, Patrick J. Kehoe, Timothy J. Kehoe and Raimundo Soto “Decade Lost and Found: Mexico
296 Ibid.
while nearly 50 percent of the population fell below the poverty line.\textsuperscript{297} The widespread deregulation of the financial industry almost led to the collapse of the Chilean economy. Despite the rhetoric of free market capitalism, Pinochet’s government ended up nationalizing nearly 70 percent of the banks, and floated the peso leading to a 60 percent drop in its value.\textsuperscript{298} Chile was an example of a transformation in the process of capital imperialism. The private losses due to the deregulation of the financial industry were be subsidized by the state, adding to public debt. From this time onwards, banking regulation was liberalized to attract foreign and domestic investment to provide risky loans with the knowledge the state would step in to prevent bank failures. This, in effect, socialized the risk from the financial industry and became commonplace in the 1980s under the presidency of Ronald Reagan.

For the United States and Britain, 1979 proved to be a pivotal year for the process of capital imperialism. In America, the Carter administration appointed Paul Volcker as Federal Reserve chairman with the promise that he would finally get inflation under control. Since the New Deal the objective of both monetary and fiscal policy had been to achieve full employment, Volcker abandoned this goal and instead focused on lowering inflation regardless of the consequences it might have on employment.\textsuperscript{299} Volcker raised interest rates to nearly 20 percent, a monetary contraction that started a prolonged recession in the United States. In addition, it drove many countries with a high level of debt (such as Chile) into the brink of bankruptcy.\textsuperscript{300} In the United States, Britain, Canada and Australia unemployment rates reached over 10 percent by

\textsuperscript{297} Ibid, 4.


\textsuperscript{299} Harvey, A Brief History of Neoliberalism. 23.

\textsuperscript{300} Harvey, A Brief History of Neoliberalism, 23.
1983 due to the sudden contraction of the money supply.\textsuperscript{301} The use of monetary policy to quell inflation would be the primary goal of the Federal Reserve from Volcker’s tenure onwards. The recession that followed the spike in interest rates, along with failures in foreign policy, contributed to Jimmy Carter's defeat by Ronald Reagan in the 1980 election. The rise of neoliberalism in the United States is often attributed to the policies of the Reagan administration—and indeed he did further deregulate the financial sector—but the deregulation of the financial sector was already well under way by the time he took office.

The Reagan administration instituted polices to undermine any threat to profitability of the wealthy and the financial sector. One of the first policies under his presidency was to substantially lower taxes on top income earners, from 73 percent to 50 percent, and cut capital gains taxes to reward investment.\textsuperscript{302} Reagan held the belief that by cutting taxes across the board it would facilitate economic growth and therefore government revenue. Though many of Reagan’s cuts were scaled back in subsequent pieces of legislation, the overall tax rates for the wealthy continued to drop throughout his time in office.\textsuperscript{303} This was part of an overall goal to limit government intervention in the economy, without angering the Republican electoral base. Regardless of the rhetoric of Reagan, politics still matter. Popular government programs such as social security remained untouched, while programs that mainly targeted labour and blacks—a


\textsuperscript{303}Harvey, \textit{A Brief History of Neoliberalism}. 26.
bastion of support for the Democrats - were reduced in scope. More importantly, Reagan altered the popular discourse in the United States on taxes and entrepreneurship:

Reagan’s policy discourse is evidence of the religious zeal with which he condemns the evils of “big government” and proclaims his faith in the inherent goodness of the market. Reagan believes “big government” is a destructive force that restricts competition and opportunity, constrains progress and prosperity, and ultimately erodes the public’s work ethic.

While America had a long legacy of scepticism towards government, Reagan’s near veneration of the free market changed the popular perspective on the role of government in society. Already, the legacy of conservative domination of Congress meant the United States did not have as comprehensive a welfare state as many European countries. After Reagan, low taxes became a mantra of the Republican Party, and the chanting became much louder after the 2010 mid-term elections in which Tea Party candidates were elected to Congress. It became the goal of the Republicans to limit the financial ability of governments to expand the welfare state.

The Reagan administration continued to liberalize the financial sector by further deregulating the savings and loan industry. Yet again, this process started long before Reagan came to office. Under Carter transportation industries including rail, the trucking industry and air travel were all deregulated. At the time there was a Democratic majority in both the House of


Representatives and the Senate, so deregulation and capital imperialism influenced policy regardless of the political party. By the 1980s, the savings and loan industry, or “thrifts” were deregulated entirely. The industry lent to people to buy a home, finance a car, or start a business. The New Deal had set restrictions on the amount of interest on deposits since if a company went bankrupt, the public insurer would have to pay. The Carter administration started to liberalize interest rates, but required companies to match this with more insurance. The Reagan administration did away with this insurance and permitted the industry to increase the amount of long-term commercial loans to pay higher interest on deposits. It also allowed lenders to provide 100 percent financing, eliminating any requirement for a down payment. The Reagan administration believed the market could regulate itself: the savings and loan industry would not provide loans to those at high risk of default, while borrowers would not over-burden themselves with an unsustainable level of debt.

As was the case in Chile, the savings and loan industry experienced an economic boom for several years, but this was followed by an unprecedented number of bankruptcies. Initially, investors were attracted to the interest rate premiums compared to regular savings accounts. Large investment firms, such as Merrill Lynch, played a role by connecting investors with this, at the time, lucrative opportunity. Competition within the industry led to an incentive to provide higher interest rates for investors; in order to do so, thrifts took on riskier loans, especially in

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309 Ibid.

310 Ibid.


312 Calavita and Pontell, 92
mortgages.\textsuperscript{313} The American housing market increased in value due to the rise in demand created through easy loans. However, by 1986 the housing market started to slow and the failure rate for thrifts started to skyrocket, with over $113 billion worth of losses.\textsuperscript{314} By the end of the year, the Federal Savings and Loan Insurance Corporation (FSLIC), the public insurer of the thrift industry, was insolvent.\textsuperscript{315} Congress eventually had to intervene to bailout the FSLIC in order to protect the deposits at a cost of over $125 billion to the taxpayer.\textsuperscript{316} The collapse of thrifts along with the loss of investor wealth and the value of mortgages played a significant part in leading to the recession in the early 1990s, adding to unemployment and government budget deficits.

Capital imperialism after the 1980s protects and enriches investors and financial companies, but damages the rest of the economy. The failure of the savings and loan industry also started the precedent of bailouts by the federal government to prevent a bank failure from spreading to the overall economy. Similar to Chile, the profits from risky financial ventures were privatized, while the public through the government absorbed the costs in a time of crisis.

Due to the process of capital imperialism that started in the 1970s, the economies of the United States and Britain had to be transformed to benefit investors and corporations. In order to do so, the post-war consensus between capital and labour had to be broken. In the United States, this started with the air traffic controllers who went on strike in the summer of 1981.\textsuperscript{317} The newly inaugurated Reagan administration seized this opportunity to send a clear message to

\begin{thebibliography}{9}
\bibitem{314} Ibid, 27.
\bibitem{315} Ibid., 30.
\bibitem{316} Ibid, 31.
\end{thebibliography}
labour: dissent from unions would be met with a harsh response.\(^{318}\) When the union refused the government’s demand to return to work, Reagan decided to fire the striking air traffic controllers and made it illegal for another company to hire a striking worker.\(^{319}\) These layoffs led to the near collapse of the industry, with many non-certified controllers taking the place of the well-trained workers.\(^{320}\) Yet this measure sent a message to the workforce and to public sector unions to not interfere with the government’s agenda. The Reagan administration would clamp down on labour and ensure profitability for capital. Prior to the 1980s the United States had some strong unions, but the labour movement was not as great of a political force as in some areas of Europe, such as Britain or Germany. However, even with America’s history, Reagan represented a different kind of response to union dissent. Though the air traffic controllers were relatively small compared to some of the larger unions, the government would go to extremes to undermine even minor threats to the wealthy.

This was replicated in Britain. Thatcher followed similar tactic to respond to the Coal Miners’ Strike of 1984 -1985. By the 1980s, foreign competition had greatly undercut the profitability of coal production in the UK. The Thatcher government decided to close down nearly half of the working mines which would lay off nearly 70,000 people over the next five years.\(^{321}\) To do so, the Conservatives had to fight against the National Union of Mineworkers (NUM) one of the country’s most powerful and well-organized unions.\(^{322}\) Unlike the United

\(^{318}\) Ibid, 14.

\(^{319}\) Ibid, 14.

\(^{320}\) Ibid, 15.


\(^{322}\) Ibid, 9.
States, where the air traffic controllers were relatively weak, the coal miners were extremely well
organized and had ties to Britain’s Labour Party. The strike lasted well over a year and at times
became violent as miners clashed with the police.\footnote{Ibid., 9.} Thatcher’s government did not have the
financial constraints of the miners. The government could afford to wait out a protracted strike
whereas the working class miners needed their wages to maintain their livelihood and feed their
families. So despite taking on one of the most powerful unions in country, the Conservative
government won the labour dispute in 1985.\footnote{Ibid. 10} The collapse of the union allowed Thatcher to
close down half the mines, throwing thousands of people out of work. By the early 1990s,
without a strong union to counterbalance the whims of the government, the entire industry was
completely privatized.\footnote{Thomas Clarke, “The Political Economy of the UK privatization Programme” in The Political Economy of
Privatization. By Thomas Clarke and Christos Pitelis. (London ; New York : Routledge, 1993): 210.} Although Britain had a legacy of worker rights, it could not stop the
policies of the Thatcher government, nor the demands of the global financial system.

While the Reagan and Thatcher governments did limit the power of labour, they were
only the political apparatus of the newly reinvigorated capital imperialism. Initially in the 1970s
the liberalization of finance was intended to enhance American policy autonomy and to prolong
its hegemonic position in the system. But once deregulated, the financial system placed pressure
on these leaders to introduce market-oriented policies and to alter the role of government in the
economy. The end of the Bretton Woods system of capital controls forced countries to compete
against each other for scarce investment dollars, starting a period of competitive deregulation of
labour and financial markets. From this point on, the financial centres of New York and London
would vie for foreign investment capital, resources and talent.\textsuperscript{326} The United States started this trend with many other developed countries following suit in the 1980s, such as Germany, France and Japan.\textsuperscript{327} Some did so to remain competitive with the US and the UK, others, like France during the presidency of Francois Mitterrand did so in order to prevent capital flight.\textsuperscript{328} And although the process was uneven and varied –some countries, particularly in Scandinavian and Central Europe kept generous welfare states – barriers to finance and foreign investment were progressively lowered in the 1970s and 1980s.\textsuperscript{329} Thus through the hegemonic capabilities of the United States, capital imperialism – the ability of global finance to condition and, at times, harm an economy -compelled governments, regardless of their political affiliation, to adopt policies favourable to international investors.

Through the United States, capital imperialism reshaped the economic policies of a wide variety of governments in the global south through the IMF. Due to the energy crisis of the 1970s and the sudden deregulation of finance, many petroleum exporting countries had excess liquidity and lent out vast sums of money to Brazil, Chile, Argentina and Mexico.\textsuperscript{330} By the early 1980s, the spike in interest rates in the United States reduced demand for a wide array of commodities from Latin America ranging from oil to copper. These countries were faced with two problems: higher interest rates made refinancing difficult due to relatively large sums that were borrowed in

\begin{thebibliography}{99}
\bibitem{327}Ibid. 78.
\bibitem{329}Helleiner. “Explaining the globalization of financial markets”, 325.
\end{thebibliography}
the 1970s, and they experienced a severe recession compounding their debt.\textsuperscript{331} With the prospect of numerous defaults on sovereign debt, the IMF was called upon as a “lender-of-last-resort”.\textsuperscript{332} However, by the 1980s, the IMF placed new conditions on the terms of the loans. It required countries that received loans undergo a “structural adjustment program” in order to lower state intervention in the economy, devalue the currency, reduce budget deficits and make the economy favourable for international investors.\textsuperscript{333} As a result of the IMF conditions, many state enterprises were privatized, wages were repressed, and poverty increased among some of the poorest people in Latin America.\textsuperscript{334} This was all part of the process of capital imperialism. The IMF – an organization largely financed and its policies are set by the United States – took advantage of an opportunity to make the conditions favourable to finance capital. The United States had already started to deregulate its own economy, and it used its position in the IMF to further weaken state intervention in the global South. From the 1980s onwards the demands of financiers and investors would take priority over full employment and the regulation of economies in both the developed and developing world.

The 1980s led to neoliberalism as a way to deal with the economic problems of the 1970s. The postwar consensus had been built upon three foundations: a system of regulated currencies, American primacy, and a consensus between labour and capital. By the 1980s, contradictions within the capitalist system began to unravel this consensus. In the United States and Britain, interest rates were raised to lower inflation and striking unions were broken. In the

\textsuperscript{331} Ibid.

\textsuperscript{332} Manuel Pastor, Jr, “Latin America, the Debt Crisis, and the International Monetary Fund” Latin American Perspectives, Vol. 16, No. 1, (Winter, 1989): 91.

\textsuperscript{333} Ibid., 92.

\textsuperscript{334} Ibid., 94.
United States, which never had a strong welfare state, pro-market policies were more readily adopted. Also the rise in interest rates led to a debt crisis in many countries throughout South America, providing the American-backed IMF the ability to enforce painful structural adjustment programs to attract investment. The international economic system would be reorganized to protect capital and investors. The spatial fixes would no longer be kept within a country, now capital would be able to invest almost anywhere in the world. Countries that refused to abide the process of capital imperialism could be punished by the rapid movement of financial markets.

**There Is No Alternative? Capital Imperialism Goes Global**

By the end of the 1980s, capital imperialism had become a systemic process of accumulation, breaking down barriers and opening previously untapped markets. Neoliberal economic policies coupled with advances in technology allowed finance to move rapidly across borders in search of profit. The dominant western power, the United States, used its centrality in the economic system to compel other countries to liberalize their financial systems. It had a role in international institutions such as the IMF to force countries to adopt market-oriented policies. However, financialization was not an even process; many countries still retained significant control over their domestic economic policies. Nevertheless, by the 1990s pressure from the international financial system or international institutions began to compel countries to adopt market-oriented economic policies. As Panitch and Gindin argue, for the most part, the American economy was strengthened rather than weakened by the financialization of the global economy in the 1980s.⁴³⁵ America had the unique ability to attract foreign investment capital from foreign

markets, and despite ending transferability to gold, the US dollar served as the world’s reserve currency. Although capital imperialism became increasingly dominant during the 1980s linking together the global economy, other forms of imperialism – geopolitical and geocapital- were still an expansionary and conditioning force. By the late 1980s and early 1990s, these processes of imperialism appeared to be seamless and beneficial to America: the geopolitical interests of the United States coincided with the accumulation strategies of both domestic capital and international finance. This was also a period of dramatic transformations in the international system. The collapse of geopolitical competitors to the United States, namely the fall of the Soviet Union and the opening up of China, only further popularized the idea that there was no alternative to neoliberalism.

The end of the Cold War can be attributed to the harmonization of these three processes of imperialism along with the long-term stagnation of the Soviet economy. When Reagan came to power in 1981, his administration took a much more aggressive approach to the Soviet Union with a large military build-up. By 1985 the leader of Soviet Union, Mikhail Gorbachev, recognized the Soviet economy was stagnant – corruption was endemic, and productivity was extremely low – making it difficult for the USSR to compete with the United States. In response to these international and domestic problems, Gorbachev initiated a new period of détente with the United States to reduce military spending, while at the same time instituting glasnost and perestroika to liberalize the Soviet economy. Once these reforms were instituted, the entire Soviet system started to fall apart. By 1989 the Soviet bloc faced a series of revolutions

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Ibid.
with Communist governments in Eastern Europe overthrown by mass protests. Rather than use the military to suppress these movements, Gorbachev chose to tolerate dissent against the authority of Moscow. Economic and political liberalization proved to be too much for the regime, and the Soviet Union itself dissolved at the end of 1991, ending 50 years of geopolitical tension between the superpowers. The countries of the former Soviet Union ended state control of the economy and adopted many of the free market reforms prescribed by the United States.

The collapse of the USSR was perhaps one of the most important political events of the late 20th century and was an example of the three processes of imperialism working in tandem. First with geopolitical imperialism, the United States had been a competitor of the Soviet Union since the end of the Second World War, facing off in series proxy wars. The collapse of the Soviet Union removed the USSR as a threat to American security interests. The United States was the sole remaining global superpower with unmatched military capacities. The heightened tension between the two superpowers was also beneficial to American corporate interests. In 1979, the Soviet Union invaded Afghanistan, and in response the Carter and Reagan administrations responded through more military spending. For example, in 1980 the United States spent just under $200 billion on defense, by 1988 defense spending increased to almost $350 billion per year (all figures in $US 1995). Furthermore, Washington proposed the Strategic Defense Initiative (SDI) to use lasers to shoot down incoming warheads (a program that as of 2012 has yet to yield any positive results), making the 1980s a very profitable time for defense contractors and other related military industries. The increase in defense spending had

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the added bonus of promoting job growth, which aided Reagan in his re-election campaign in 1984. The collapse of the Eastern bloc led to the liberalization of the economies in the former USSR, which opened up new markets for American consumer goods.\textsuperscript{340} So both the events leading up the end of the Cold War and the breakdown of communism are examples of the processes of geopolitical and geocapital imperialism.

Capital imperialism was a determinant in the downfall of communism as well. When the Reagan administration bolstered defense spending, it also reduced taxes on the upper and middle class, leading to nearly quadrupling US public debt to $4 trillion by 1992.\textsuperscript{341} Despite the profligacy of the American government, it had the ability to attract capital in order to continue to finance this debt. Moreover, since the dollar was no longer pegged, countries did not have a method to exchange their US dollar reserves for gold. Since US treasuries were considered to be the safest investment, their yields – and the cost of borrowing – remained low, this provided the American government with greater fiscal flexibility to spend without having to raise taxes or cut entrenched and popular social programs.\textsuperscript{342} Financialization allowed the United States to borrow enough money to outspend the Soviet Union. Certainly, this was not the only reason the Soviet Union collapsed, but it did give the Americans a financial advantage over its competitor. Furthermore, after the collapse of communism, an unexploited market was now open to investors. Initially, investment started slowly and unevenly as countries transitioned towards market economies in the early to mid-1990s, but by the 2000s there was massive investment


from banks in Western Europe, particularly in more market friendly countries such as the Czech Republic, Hungary, and Slovenia. Many of these countries privatized their telecommunications industry and public utilities which were subsequently purchased by investors from Western Europe. Some Eastern European countries joined the European Union to facilitate greater trade and attract investment. So the liberalization of finance gave the Americans the ability to outspend the Soviet Union, and eventually profited from the opening of new markets to investment.

Also during the 1980s the economy was opened in the most heavily populated country in the world: China. Yet again we see geopolitical imperialism followed by geocapital and capital imperialism. By the 1970s, the longstanding split between the PRC and the USSR led China to open diplomatic relations with the United States. From a geo-strategic perspective, it was to America’s advantage to normalize relations in order to draw China into the western fold away from the Soviet Union. The political opening of China was shortly followed by economic openness after the death of Mao in 1976 and the ascension of Deng Xiaoping. By the 1980s, Deng introduced reforms to China’s legal and economic system, slowly opening the country to foreign investment. At the time, China was a poor agricultural society – Mao’s Cultural Revolution and Great Leap Forward killed millions and left the economy in ruins. The purpose

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346 Harvey, A Brief History of Neoliberalism, 120.

347 Ibid., 124.
of these reforms were to gradually introduce capitalism but with state oversight over banks and corporations. Some degree of private ownership was tolerated, but the government still maintained a controlling share.\textsuperscript{348} During the 1980s, the experimentation met with success – China could attract low-wage low-skill industries and export goods to the United States.\textsuperscript{349} However, this development was not without some problems: China’s economic development was hampered by trade sanctions after the government brutally crushed dissenters during the Tiananmen Square protests in 1989. Learning from the successes of the 1980s, the Chinese government fully opened its economy to foreign investment in the 1990s and began to grow at an unprecedented rate, finally joining the WTO in 2001, adopting most global trade and investment standards.\textsuperscript{350}

By the late 1990s the former USSR and China were starting to be integrated into the global capitalist system. As foreign investment regulations were deregulated throughout the world, financial markets gained the ability to enrich or punish a country’s economy at an unprecedented speed. Moreover, after a brief recession in the early 1990s, most economies in the developed world entered a prolonged period of economic growth due the technological advancements in computers and information technologies. This tech boom coupled with the opening of China led to a substantial increase in Global Production Networks (GPN) where firms produced goods where labour was cheap and sold them to consumers in the developed world.\textsuperscript{351} One such example, the American retailer Wal-Mart became one of the world’s largest companies

\textsuperscript{348} Ibid., 125.
\textsuperscript{349} Ibid., 130.
\textsuperscript{350} Ibid.
in the 1990s by streamlining the production process. Wal-Mart gathered information at the point of sale to automatically generate production orders in China, cutting down on overall costs. Corporations were increasingly taking advantage of deregulated markets and loose financial restriction in order to produce on a global level. The liberalization of finance was supposedly beneficial to both Chinese workers and American consumers. China had a vast pool of workers and wealthy American consumers could purchase Chinese-made products at a lower price. By the 1990s, policies to retrench government and liberalize finance and production were widely instituted by politicians throughout developed and developing economies.

In the 1990s many of the conservative parties that enacted neoliberal policies were defeated and traditional centre-left parties were given the opportunity to govern. In the United States, the Democrat Bill Clinton was elected president in 1992 and in Britain Tony Blair’s Labour Party attained a majority in parliament in 1997. Once in power, though, Clinton and Blair continued many of the same policies as their predecessors. Clinton cut government spending, lowered taxes on corporations and the wealthy and reformed welfare. In the United Kingdom, Blair broke with the old affiliations to the labour movement and promised a “third way” between the free market agenda of the Conservatives and socialism. There are many reasons for this continuity, but paramount was the ability of financial markets to force governments to comply with demands of international investors – capital imperialism. By 1995, according to the Bank of International Settlements (BIS) over $1.2 trillion dollars were traded over currency exchanges

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per day in investments, swaps and derivatives.\textsuperscript{354} By the 1990s many developed and developing countries, with the exception of India and China where the government still played a large role, had removed capital controls completely.\textsuperscript{355} The massive amount of investment dollars move with little regulatory oversight across international boundaries. The sheer size and volume of global financial markets made any government, regardless of its size in the global economy, cater to the demands of international investors in order to prevent volatility in financial markets.

The liberalization of finance was not without a tendency towards crisis. In the 1990s a series of sudden and rapid panics occurred in emerging economies. The first significant panic was in Mexico after the government deregulated capital controls. Mexico was neither heavily in debt by global standards nor did it have an overly expansive welfare state, yet investors lost confidence and the value of the peso collapsed.\textsuperscript{356} Since borrowing costs had risen due to the rapid devaluation of the peso, the Americans provided Mexico with a bailout to prevent a default on their debt and the crisis from spreading. A similar panic occurred in 1997 in East Asia, a region that had developed quickly since the 1970s. When Thailand floated its currency, investors set off a speculative run against the economy. The crisis quickly spread to South Korea, Malaysia, the Philippines, and Indonesia threatening the region’s banks and stock markets.\textsuperscript{357} In order to mitigate the crisis, the IMF provided these countries with US $95 billion in loans to restore the confidence of international investors and calm financial markets.\textsuperscript{358} However, the

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\begin{itemize}
\item \textsuperscript{357} Stiglitz, 89.
\item \textsuperscript{358} Stiglitz 95.
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IMF required a series of difficult austerity measures as part of the loan conditions – the countries had to cut government spending and increase taxes.\(^{359}\) The Asian financial crisis had one other significant ramification: it weakened the already fragile Russian economy. Similar to the Asian crisis, the IMF offered the government of Russia a loan package. Yet financial markets proved too powerful for the IMF and undermined the value of the Ruble, leading a default on the country’s debt in 1998.\(^{360}\) Though Russia started to recover by 1999, the political damage had been done: Russia fell back into authoritarianism under the presidency of Vladimir Putin.

By the year 2000, capital imperialism has become the dominant expansionary global accumulation strategy, limiting and conditioning governments. In advanced economies, capital markets had been deregulated allowing investors to move money quickly and with minimal government oversight. Even corporations that produced goods would often use their assets to leverage in order to lower costs through global production chains. Deregulation would often lead to an asset bubble as investors rush in for quick profit, followed by a crisis that undermined the economic stability of a country. The US government, either directly or through an intermediary like the IMF, would act as lender of last resort or intervene to prevent the panic from spreading. A discussed earlier, the East Asian and Russian crisis continued a pattern of targeted bailouts to prevent a systemic crisis. For developing countries, loans came with the conditions to retrench government spending and to cater to the interests of international investors. At the end of Clinton’s term in office, America had unquestionably benefited from the liberalization of capital markets. The advances in technology led to a high level of employment, while trade with China kept inflation low and provided the country with cheap imports. Though

\(^{359}\) Stiglitz, 96.

\(^{360}\) Stiglitz, 150.
there had been periodic crises throughout the 1990s in emerging economies, for the most part, the problems had been contained. With the United States acting in the interests of international investors it seemed that there was no alternative to neoliberalism.

By the turn of the millennium it appeared the American government, corporations and international investors worked together to spread capitalism. With China and Russia being brought into the global economy, there was no longer any viable alternative to capitalism. Even India started to open its economy in the 1990s to foreign investment. However, underlying the supposed unity of the American government, corporations, developed and emerging economies and finance there were marked differences and new sources of conflict. Systemic fault lines appeared between those that benefited from this phase of free market capitalism and those that did not. For developed economies, Canada, the United States and Mexico signed the North American Free Trade Agreement in the early 1990s, while a single currency, the Euro, started to become adopted by continental European countries in the year 1999. It was during the late 1990s that the anti-globalization movement gained support. People protested against the neoliberal agenda of the G8 and WTO arguing that it exacerbated global inequality and led to the exploitation of the developing world as countries “raced to the bottom” for investment.\(^\text{361}\)

Corporate practices were scrutinized by activists who argued many workers in developing economies were poorly paid and had few employment rights.\(^\text{362}\) Many journalists and academics argued the new economic order gave too much power to corporations, banks, and financial markets at the expense of democracy and human rights.\(^\text{363}\) It is no coincidence that Hardt and


\(^{362}\) Naomi Klein No Logo (Toronto : Knopf Canada, 2000).

\(^{363}\) Chomsky, 11.
Negri’s assumption that economic and political power had become harmonized was a product of the experience of the 1990s.\textsuperscript{364} In their view, Empire represented the synchronization of an economic, political, and cultural process that exploited the global multitude. However, what was actually occurring was the temporary coordination of three interrelated processes of imperialism.

With the demise of the Soviet Union and the opening of China, there were no longer any remaining major geopolitical threats to America. Washington was free to use its role as the sole superpower to promote American corporate interests and integrate previously untapped markets into the world economy. Corporations could use China and Eastern Europe as cheap sources of labour, lowering the price of goods to sell to wealthier countries. Capital imperialism compelled governments to deregulate their financial sector in order to attract investment. Although this led to the need to bailout Mexico and East Asian countries, for the most part, the 1990s were a profitable time for investors. The Dot Com boom in the United States led to one of the longest periods of economic growth in the United States since the 1960s. In the 2000 presidential election between the Democrat Al Gore and the Republican George W. Bush, the debate centered upon how the federal government should spend its projected surpluses. However, this peace and prosperity proved to be short-lived as the events of the next decade, as well as the decisions made by George W. Bush as president, produced tensions and contradictions between the three processes of imperialism.

\textsuperscript{364} Hardt and Negri, Empire, 6.
Conclusion and Summary

The purpose of this chapter has been to use DHM to analyze the development of imperialism throughout the 20th century. I traced the historical rise of the United States after the Second World War, and how it has been trying to manage, albeit with varying degrees of success, the global capitalist system. The material transformation of capitalism was assessed throughout this chapter, from the near collapse of global trade and finance during the depression, to its regulation in the post-war era. It seemed countries had learned from the depression and sought to institute a framework to foster a compromise with labour and capital. In the immediate post-war period, corporations often worked in tandem with the American government – when business interests were threatened, the US military intervened. Yet, there were other motivations for the United States than just promoting business interests. The threat of the spread of communism compelled the United States to expend vast military and economic resources to prevent the spread of communism. These two interrelated processes of imperialism – geopolitical and geocapital – defined the post-war system, with America as the dominant hegemon of the capitalist system.

The contradictions in capitalism of the 1970s gave way to the incremental rise of neoliberalism. As I have shown through DHM, there were many determinants that led to this transition. One reason was the very way the post-WWII regime was constructed with the US as the center of the global economy. The Bretton Woods system had created a stable international economic order that relied upon the Americans to underwrite the system. By the 1970s, the rapid growth in competition from Europe and Japan, along with the power of the labour movement and the toll of the Vietnam War, led to the unravelling of the post-war consensus. This started with
an economic decision of the Nixon administration to suspend the US dollar’s convertibility to gold, thereby undermining the entire Bretton Woods system of currency controls. This proved to be a short-term solution, but had unforeseen consequences. It paved the way for broader deregulation in the global economy. The energy crises of the 1970s led to a decade of high inflation and low economic growth that further destabilized the post-war consensus. Although the degree to which neoliberalism was adopted was uneven, it set off the new phase of capital imperialism – the ability of corporations and finance to condition and penalize a country that goes against market principles.

When the Soviet Union collapsed and China started on its path to reform, capital imperialism had fewer barriers in the global economy. By the 1990s, the United States government, international financial institutions, and corporations worked in tandem to open markets and protect the rights of investors. Even traditional center-left parties in the US and the UK had adopted pro-market policies. And though there were periodic crises in Mexico, South Asia, and Russia, the Americans and the IMF were available to prevent a broader systemic crisis of capitalism. By the turn of the millennium, it seemed as though the processes of geopolitical, geocapital and capital imperialism had harmonized. Yet despite the seeming synchronization of these forces of imperialism, by 2001 tensions began to arise between the United States and the financial system.
Chapter 6:

Imperialisms

*Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living.* - Karl Marx.

This is a new kind of -- a new kind of evil. And we understand. And the American people are beginning to understand. This crusade, this war on terrorism is going to take a while. And the American people must be patient. I'm going to be patient. But I can assure the American people I am determined, I'm not going to be distracted, I will keep my focus to make sure that not only are these brought to justice, but anybody who's been associated will be brought to justice. Those who harbor terrorists will be brought to justice. – George W Bush, September 16th, 2001.

*I face the world as it is, and cannot stand idle in the face of threats to the American people. For make no mistake: Evil does exist in the world. A non-violent movement could not have halted Hitler's armies. Negotiations cannot convince al Qaeda's leaders to lay down their arms. To say that force may sometimes be necessary is not a call to cynicism - - it is a recognition of history; the imperfections of man and the limits of reason.* – Barack Obama, Nobel Peace Prize Acceptance Speech, December 10th 2009.

This chapter will continue the analysis started in chapter 5 by examining imperialism after the September 11th, 2001 terrorist attacks and the wars in Afghanistan and Iraq. The processes of imperialism continued under the tenure of the Bush administration due to America’s errant foreign policies and fiscal mismanagement with America owing trillions to China by the end of the decade. The weakness in the American economy led to a global financial crisis in 2008 and the subsequent Great Recession. The crisis spread throughout the global economy, yet the recession is not a uniform problem: its characteristics vary with a specific region’s economy,

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politics, culture and institutions. Using identity/difference I will show how the Great Recession is both part of the same global crisis in capitalism and a series of local crises. In America to reform finance, Obama proposed new regulations for the global economy in order to prevent another major downturn. However, the response of the Obama administration has been complicated by polarization of American politics. The bailout of the financial system has been contested by the Tea Party on the right and the Occupy Wall Street movement on the left. These social movements along with America’s divided government have hampered its ability to deal with domestic economic issues, as well as its capacity to take a leadership role in order to mitigate the broader global crisis. And although the crisis started in America, it quickly spread to Europe and, to a lesser extent, China. I will argue the crisis has shown there are substantial tensions between politics and the financial system, with American and European governments struggling with the demands of financial markets.

I will continue to use the method DHM to assess the contemporary processes of imperialism. Critical theories of imperialism tend to argue American policy is dictated by the demands of the capitalist system, whether it be corporations or financial markets. DHM will provide an analysis of these events by examining a complex series of determinants of American policy and global finance. A major theme of this chapter will be the spatial displacement due to the recent contradictions in capitalism. With the downturn of the Dot Com bubble in 2000, many investors and firms in the United States put money in the mortgage market. When the subprime crisis occurred, governments throughout the world tried to absorb that debt, leading to a sovereign debt crisis in many countries. This chapter will continue to provide a framework to understand the complex and, at times, contradictory processes of imperialism which have been prominent after the terrorist attacks of September 11th, 2001. To highlight one such example: the
war in Iraq has been detrimental by almost any account to the American government and most domestic corporate interests. The reason the war has been protracted is due to American political culture in a post-9/11 environment and the rise of global energy demands. It led to a contradictory outcome to its goals where the war cost the American government trillions, but has been very profitable for China—arguably America’s largest competitor.

This chapter will start with a discussion of how, shortly after George W. Bush became president, the three forces of imperialism began to fragment due to the war on terror and the war in Iraq. With the financial crisis of 2008, a major process of imperialism, capital imperialism, began to harm the economy of the United States. The election of Barack Obama led many scholars and journalists to hope the United States could resolve the tensions with the financial system. They hoped the Obama administration would be able to manage the recession, which started as one of the largest downturns in the American economy since the 1930s. Yet despite Obama’s presidency little has changed: the United States still has troops in Iraq and Afghanistan, and despite the several stimulus packages, America’s economic future remain uncertain. The gradual deregulation of the financial system over the past 40 years provided private investors the ability to condition both the United States government and the international banking system, limiting the options for the Obama administration. Capital imperialism made the American financial system go into meltdown as firms failed and credit markets froze.366 While the crisis itself was brought about by the bankruptcy of Lehman Brothers, the role of derivatives, and a failing mortgage market, the determinants of the recession have deeper historical roots. By the time the financial crisis hit, America alone could not, and cannot, manage the financial system.

Although the crisis and the recession started under the presidency of George W. Bush, the recession has shaped the policies of Barack Obama. Indeed, there has been a remarkable continuity between these two administrations. This is due to politics, on the one hand, forcing Washington to enact policies that are popular on the home front, and capital imperialism through international financial markets, on the other, limiting the options for the American government. To show this I will examine the immediate response of the American government to financial crisis and evaluate the challenges America and other major countries continue to face due to a protracted crisis.

The recession has been global in scope, albeit with different consequences in Europe and China. In Europe, it has led to a series of debt crises in Portugal, Italy, Ireland, Greece and Spain (PIIGS). With these countries unable to attain new loans or to devalue their currency due to the adoption of the Euro, they require bailouts from other countries and to adopt unpopular austerity measures. However, if any of these countries exit the Eurozone, it could lead to yet another global financial crisis similar to 2008. So the major lender countries of Germany and France continue to delay and displace the crisis through periodic bailouts. Some have even argued that the 21st century will belong to China at the expense of the West. This chapter will evaluate this debate in the critical literature on imperialism. While China has experienced a dramatic pace of development since the 1980s, its economy is just as prone to contradiction and crisis as the West. The recession seems to have been avoided through intervention by the Chinese government, but as I will discuss numerous economic problems are on the horizon. The crux of this analysis will be that the process of capital imperialism - the power of corporations, financial firms, and financial markets - has become a dominant force that now conditions and conflicts with the most powerful states in the international system.
The Bush/Obama Wars

The Bush administration’s poorly executed invasion of Iraq as a response to the terrorist attacks of September 11th, 2001 began tension in the seemingly harmonious processes of geopolitical, geocapital and capital imperialism. The purpose of this section will be to examine the broader systemic processes that took place in the post-9/11 period. Similar to previous Cold War conflicts, there was no dominant economic motive for the invasion of Iraq for the Americans. Though there are vast oil reserves in Iraq, the war, if anything, has not proved beneficial to the American economy nor American corporations. The war in Iraq was in fact a new phase of American geopolitical imperialism, one led by neoconservatives. The Bush administration promised to spread democracy, freedom and markets in the Middle East as a method to ensure the security of Americans. The domestic circumstances in a post-9/11 context were a major determinant behind the invasion. Although the war in Iraq was costly for the American government, for many firms, it has been extremely profitable. Investors in military and oil corporations, particularly those from China and Russia, profited from the war at the expense of the American government.

As a response to the terrorist attacks of September 11th, 2001, the United States started a series of military invasions in order to bring greater domestic security. For the American government “the war on terror” became a priority rather than just economic liberalization. Although the United States’ commitment to free trade and open markets was not abandoned completely, the war on terror became a paramount consideration for the Bush administration.367

367 Ibid.
As a consequence of the attacks, NATO launched the war in Afghanistan hoping to eliminate Al Qaeda and the Taliban. The war was viewed by most as a multilateral conflict that had the support, or at least the tacit acceptance, of the international community. The Bush administration went through institutional channels for the war and attained the consent of the UN to launch an attack on Afghanistan. For the war on terror, geopolitical imperialism took priority. The United States had been attacked by a sub-state terrorist organization, and, at least for this conflict, was willing to work through the UN to attain a sense of international legitimacy for the war. However this conciliatory approach was shortly thereafter rejected as the United States launched a war that violated of international law and infuriated its allies.

In the spring of 2003, the Bush administration decided to invade Iraq with a coalition of willing countries, but without the consent of the UN. There were many reasons given by the Americans for the removal of Saddam Hussein by force. The administration argued that Saddam was a security threat to the United States and likely would harbor terrorists and provide them with weapons of mass destruction. However, this justification was widely refuted by the American security establishment. As John Mearsheimer and Steven Walt argue, even with nuclear weapons, Iraq could easily be contained and posed little threat to international peace. During the 1991 Gulf War when Iraq invaded Kuwait, the Americans led a coalition to remove Iraq’s forces. Saddam was left in power in Iraq, but the regime was essentially isolated from the international community, posing a negligible threat to the region. Yet despite these protests

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369 Ibid.

370 Ibid.
from the security establishment, the threat of WMDs was cited as a major reason to use force to oust Saddam.

Another justification for the invasion was to spread democracy to Iraq. As I discussed in detail in Chapter 2, American liberal scholars and policy-makers have an ideological commitment to democracy. And although in practice the United States government has supported right-wing dictators throughout Latin America and South East Asia, by 2001 many Republicans believed that the best method to ensure America’s security and economic prosperity was through regime change in the Middle East. 

Bush stated in a weekly radio address in 2005: “A democratic Iraq will be a powerful setback to the terrorists who seek to harm our nation… A democratic Iraq will be a great triumph in the history of liberty. And a democratic Iraq will be a source of peace for our children and grandchildren”. The war in Iraq was an attempt by the Bush administration to bring democracy to a region through the use of force. Bush’s decision was at least in part a way to combat hostile regimes. There was a belief that a democratic Iraq would not pose a threat to American interests and would not be a launching ground for terrorist cells. Of course, the war did not go as planned and democratic institutions in Iraq remain fragile. But at least on the part of the Americans, regime change was a determinant behind the decision to invade.

The invasion of Iraq challenged many theoretical assumptions about Hardt and Negri’s Empire. In their view, the globalization of production has changed the nature of state sovereignty and control. Hardt and Negri argue there has been a change in the location of sovereignty, from


the nation-state to supranational institutions and social norms.\textsuperscript{374} If indeed this has taken place, then we would expect the United States to abide by international institutions and laws – departing from the national interest guiding American foreign policy. However, inter-state conflict reemerged due to the invasion. The Bush Administration argued that Iraq posed a threat to its security due to its weapons of mass destruction program and consequently invaded the country. As David Moore argues “the ‘terror from above’ that has been visited on Afghanistan and Iraq in the wake of 9-11 suggests the increasing dominance of American state power \textit{qua} state power, instead of the erasure of such authority as predicted in \textit{Empire}”\textsuperscript{[emphasis in original].375} In this case, America has reasserted itself in the face of a perceived security threat. The United States seems willing to abide the whims of the international community when it suits its interests and but will also readily ignore them. While the strain that arose over war in Iraq did not lead to a full international conflict, it does highlight the inability of international institutions to constrain the one of the most powerful countries in the world.

Moreover the similarities between the Bush and Obama administrations suggest that, in the longer term, the perceived national interest takes priority in issues of security. On the surface, Bush and Obama seem to have very little in common: Bush is a Republican conservative from Texas who pursued an aggressive foreign policy in the face of international opposition, while Obama is a liberal Democrat from Illinois. Throughout the 2008 election campaign, Obama promised to restore America’s standing in the world. Yet after Obama’s inauguration, his administration continued many of the same policies from the Bush Administration: Obama even kept the same Secretary of Defense, Robert Gates. The invasion of Iraq shows the United States

\textsuperscript{374} Hardt and Negri, \textit{Empire}. 27.

does not refer its security decisions to transnational institutions. As a consequence of this continuity, the unilateralism of George W. Bush’s administration is not a historical outlier when a broader assessment of foreign intervention is taken into consideration; it is in fact more commonplace. Certainly the United States abides by international regimes when it suits its interests, but is willing to take unilateral action in places such as in Vietnam, Iraq, and countless CIA interventions in South America during the Cold War. If Obama’s current policies are any indication, his administration will continue to follow this pattern. Obama continued the slow withdrawal from Iraq started under Bush, and copied his policy of a build-up of troops in Afghanistan. So despite the globalization of production and markets and finance, state sovereignty has not made a similar transition to the global level. The United States maintains its ability to conduct war based on its own prerogative, not according to norms of international institutions. The American government plays a key role in perpetuating and stabilizing capitalism, but it can be motivated by domestic geopolitical concerns.

Hardt and Negri provide some insights on the globalization of production, finance and to some degree, culture, however political power remains far more independent of global networks than is assumed in Empire. Hardt and Negri offer a sophisticated blend of method and theory that examines production and political power on the global level, but empirical tendencies suggest that the state remains more autonomous in global politics than they assume. Production and finance may prove to be a powerful motivator for state action, but, there is a distinction between capital and geopolitical imperialism. This is not to deny the power of the globalization of production and finance; rather, the argument is that it does not automatically or solely determine the policies of states. Imperialism is more complex and may be influenced by production on a supra-national level, as well as stem from geopolitical competition or ideational factors. The
relative underlying determinations differ depending on context. The war in Iraq is a significant example of the US ignoring global public opinion and defying international law.

Another reason that is commonly cited by many critical and IPE scholars is that the war was a method to control Iraq’s oil reserves, and it was far too much of an economic asset to be left under the authority of a regime hostile to America.\(^{376}\) While there is some merit in the view that economics may have been an underlying basis for the war in the planning stages, the war in Iraq is problematic for many of these assumptions about imperialism. Panitch and Gindin argue “the American state’s war of aggression in Iraq... [is] so flagrantly imperial and so openly connected to a doctrine that expresses the broader aim of securing a neoliberal capitalist order on a global scale”.\(^{377}\) While the Bush administration’s goal was to spread markets and democracy, it is unlikely capitalism, particularly the need for oil for the American economy, was the sole cause of the Iraq invasion. Though far from an ideal leader, Saddam was not in a position to oppose the demands of the international community. The sanctions after the Gulf War in 1991 virtually destroyed Iraq’s economy and state infrastructure.\(^{378}\) The international community dictated the terms by which Iraq could sell its oil when the “Oil-For-Food” program started in 1995. Even the 2003 war showed the fragility of Saddam’s regime, with it collapsing in several weeks against the better equipped American military. Saddam’s regime, prior to the invasion, was isolated internationally and weakened internally – not much of a threat to “the neoliberal capitalist order”.


\(^{377}\) Panitch and Gindin. 23.

In addition, the war has not been beneficial to the United States government due to the costs of the invasion and the reconstruction. Prior to 2003, the United States Secretary of Defence Donald Rumsfeld argued “the bulk of the funds for Iraq’s reconstruction will come from Iraqis -- from oil revenues, recovered assets, international trade, direct foreign investment -- as well as some contributions we've already received and hope to receive from the international community”. Rumsfeld’s prediction for the war could not have been further from the eventual costs. Iraq was not in a position to pay for the American invasion or its rebuilding efforts. The war and subsequent insurrection has been very expensive. According to Joseph Stiglitz and Linda Blimes, by 2010 the costs of the war for America were well over $3 trillion dollars. This cost translated into greater deficits for the United States government. So rather than the war in Iraq profiting the United States government, the high costs associated with the war contributed to the high levels of American debt. Moreover, it was entirely foreseeable that there would be a major disruption in oil production due to the war. Prior to the American intervention in Kuwait in 1991, Iraqi forces lit over 700 oil wells on fire in an attempt to cripple the country’s production. Thus Saddam’s regime has a well-established history of a scorched-earth policy towards the Americans. Since the goal of the invasion was regime change, and not to oust the Iraqi military, it was possible that Saddam could have ordered another attack on Iraq’s oil infrastructure similar to the Gulf War in 1991. Also, since the United States has withdrawn troops from Iraq under Obama, many Sunnis have joined rebel groups or Al-Qaeda due to their

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frustration with the Shiite-led government. 

382 Sectarian violence has been a problem in Iraq since the invasion. Now with fewer American troops to provide stability, there is a greater chance of a factional war between Shiites and Sunnis. This of course would devastate oil production further, leading to a rise in oil prices and could possibly lead to the overthrow the American-backed government.

Despite the rhetoric to the contrary, Obama continues the policies of the Bush administration. The Obama National Security Strategy states, “the United States must reserve the right to act unilaterally if necessary to defend our nation and our interests… we will also seek to adhere to standards that govern the use of force" because "[d]oing so strengthens those who act in line with international standards, while isolating and weakening those who do not". 

383 Much like the Bush administration, Obama appears to favour unilateral action when necessary, while still using multilateral institutions when it suits America’s interest. This foreign policy approaches is not a substantial departure from George W. Bush. While Bush may be popularly viewed as a president who ignored international institutions, it is important to note his administration used multilateralism when it was in the interest of the United States, such as in dealing with Asian-Pacific affairs and on trade agreements. 

384 So neither Obama nor Bush is a departure from the norm. Like any other president, they are willing to use multilateral institutions when necessary, but will ignore them when it is in the interests of the American government.

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383 Cited in James Traub “The World According to Barack Obama” *Foreign Policy Magazine*. (June 1, 2010.): http://www.foreignpolicy.com/articles/2010/06/01/where_have_all_the_george_kennans_gone

Even Obama’s troop reduction started under the Bush administration. In the summer of 2008, an agreement was made with the Maliki government planned for the withdrawal of American troops from Iraq by 2012.\textsuperscript{385} The Obama administration did little to alter these agreements; it just sped up the deadline and left a contingent of military forces for the training purposes of the Iraqi military.\textsuperscript{386} Obama’s foreign policy decisions were arrived at despite the opposition from liberals and Congressional Democrats, suggesting little domestic political pressure for continuing America’s role in this region.\textsuperscript{387} Furthermore, Obama’s troop surge for the war in Afghanistan mirrors Bush’s strategy for Iraq in 2007. Obama has added 35 000 more troops to combat the Taliban and to help rebuild and secure Afghanistan, with hopes of withdrawing troops in 2011.\textsuperscript{388} In the area of foreign policy, Bush and Obama tend to follow the perceived national interest, leading to a great deal of consistency between the two administrations. Geopolitical imperialism is a major expansionary force regardless of the president. American leaders are motivated by many of the same international and domestic pressures regardless of the officeholder.

For the Obama administration, the events of the Iraq war continue to constrain American foreign policy. The legacy of the war makes marshalling resources for a military “surge” in Afghanistan much more difficult. Though Obama has diverted more troops and financial aid to fight the Taliban, he has refused to make a long-term commitment to rebuilding Afghanistan. As


\textsuperscript{386} Ibid.

\textsuperscript{387} Carl Hulse and Adam Nagourney “Obama’s Afghanistan Decision is Straining Ties with Democrats” \textit{The New York Times}. (December 3\textsuperscript{rd}, 2009): A20.

Obama stated to Secretary of Defence Robert Gates and Secretary of State Hillary Clinton: “I'm not doing 10 years… I'm not doing long-term nation-building. I am not spending a trillion dollars”. The legacy of the Iraq war has made the Obama administration far more reticent to make long-term military commitments. Already by the end of the Bush administration the policy of regime change was viewed as largely a failure due to the Iraq experience. It has also made possible allies far more skeptical of American military force abroad, making international military coalitions less likely to join the American cause when it goes to war again.

Overall, there are problems with Panitch and Gindin’s assessment of the war in Iraq and the recent policies of the Obama administration. For one, America’s forcibly spreading capitalism and democracy to Iraq and Afghanistan has been met with limited success. Although elections do take place, both countries still experience large amounts of violence and instability. If the insurgency led to the overthrow of the Iraq government it would negatively impact economies that rely on foreign oil, particularly the United States which is already trying to recover from the 2008 recession. Moreover, the argument that spreading capitalism as the major determinant for the war in Iraq does not take into account the high costs of the occupation and rebuilding efforts on the United States. The United States spent trillions of dollars on the war in Iraq with little to show for it in terms of material gain. Moreover, Iraq was already producing oil in a subservient position prior to the invasion. The war itself damaged Iraq’s oil infrastructure for nearly a decade. Contrary to the assumptions of Panitch and Gindin, the war in Iraq has done significant harm to the United States and its economy and, as of yet, has not been beneficial for America. There is an assumption that the US government works on behalf of the interests of

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international finance. However, there was little pressure from international financial markets to invade Iraq. The wars in Iraq and Afghanistan have proven expensive for the US government, and a failure to bring long-term stability to the countries.

However, Harvey’s new imperialism offers a more compelling explanation of why the United States went to war with Iraq, but it has difficulty providing an account of the events since the invasion. Harvey argues at length that there are two major reasons behind the invasion of Iraq: first, to take attention away from domestic problems and, second, America invaded Iraq to control of a vital resource, oil, from current and future geopolitical competitors.\(^{390}\) The latter reason may have been a major factor in the Bush administration’s decision to invade Iraq. If this is the case, the American government grossly miscalculated the costs versus the benefits of the war. In 2002 the United States was still recovering from the shock of the attacks of September 11\(^{th}\); the Bush administration may have used these attacks in order to secure a major source of the world’s oil production. While Iraq does have vast reserves of oil, much of its production was disrupted during and after the American invasion. For all the problems of Saddam’s regime, he maintained enough stability in the country to keep oil lanes open. The war and subsequent insurgency damaged Iraq’s oil production. It only returned to its pre-war levels in February of 2011, despite an increase in the demand for, and price of, the resource.\(^{391}\)

The war in Iraq has been detrimental in almost every way measurable to the United States government. Arrighi argues the conflict has helped to undermine America’s economic and political hegemony in the system – an assessment which does contain some merit.\(^{392}\) The

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\(^{390}\) Harvey, 12-25.


\(^{392}\) Giovanni Arrighi *Adam Smith in Beijing* (Verso Press USA; 2007).
invasion of Iraq has not secured oil contracts for American firms; in 2009, the majority of the contracts for Iraq’s oil were awarded to companies from Britain, China and Russia – two of these American’s main geopolitical rivals.\textsuperscript{393} Even when taking into consideration where Iraqi oil is sold, the United States has not attained substantial control of Iraq’s oil supply. In 2009, the US Energy Information Administration (EIA) estimated that Iraq exported 47\% of its oil to Asia (especially China, India and South Korea), with 30\% to the entire Western Hemisphere, and 22\% to all of Europe.\textsuperscript{394} Furthermore, the United States’ share of Iraq’s oil exports have decreased since the 2003 invasion, from 240,191 barrels imported at its peak in 2004 to 164,357 in 2009.\textsuperscript{395} The long-term consequences of the American invasion in Iraq have been almost entirely contrary to the expectations of David Harvey’s theory. American oil companies do not profit from the American occupation of Iraq. Moreover, the United States has not increased its share of Iraq’s oil exports, nor has it prevented its major political and economic rivals from access to Iraq. America has wasted trillions of dollars on a war with few tangible benefits.

Along with Arrighi, Harvey could assume that Iraq has been a poorly executed attempt to gain exclusive control of Iraq’s oil. The Bush administration could have grossly underestimated the costs of invading Iraq, putting down an insurgency rebuilding the country’s infrastructure, and democratizing its political institutions. As Rumsfeld stated earlier, maybe the Iraq war could have paid for itself. The Bush presidency had numerous poorly executed public polices, such as underestimating the cost of the prescription drug benefits program, the reaction

\textsuperscript{393} Vivienne Walt. “U.S. Companies Shut Out As Iraq Auctions its Oil Fields”. \textit{Time Magazine}. (December 10\textsuperscript{th}, 2009): http://www.time.com/time/world/article/0,8599,1948787,00.html


to Hurricane Katrina, and his administration’s inability to prevent a global financial crisis.\textsuperscript{396} The war in Iraq, though a large drain on America’s economic resources and international prestige, could have been a misguided attempt to prolong America’s global dominance. An alternative explanation to Harvey’s new imperialism is that oil was a driving factor, but not the major motivation behind the war in Iraq. There are other plausible determinants for the forcible removal of Saddam, such as a genuine, albeit misplaced, concern for national security, the Bush family’s vendetta against the regime, or its ideological commitment to democracy. Particularly early in his presidency, George W. Bush used economic incentives to promote democracy throughout the broader Middle East in areas such as Egypt, Syria, Iran, Bahrain and Morocco.\textsuperscript{397} It is possible the Bush administration truly believed that using military force to spread democracy in Iraq would both be easy and cheap.

A consequence of the Iraq war is that it has left the Obama administration far more hesitant to participate in nation-building and democracy promotion. Rather than strengthening the global position of the United States, the Iraq invasion has left America, both in the later part of Bush’s term and under Obama, more reticent to use its military and more cautious about foreign intervention.\textsuperscript{398} Obama’s policy toward Afghanistan is direct result of the problems of the Iraq war. The United States is willing to commit more troops to fight the Taliban, but only for a limited time and with an explicit exit strategy. Even allies for Afghanistan are harder to find with Canada and Britain withdrawing troops. Furthermore, the recent revolution in Egypt showed

\begin{flushright}\textsuperscript{396} Harold Mayerson, “Bush the Incompetent.” \textit{The Washington Post}. (January 25, 2006.): \url{http://www.washingtonpost.com/wp-dyn/content/article/2006/01/24/AR2006012401163.html}\end{flushright}


Obama’s hesitance over whether to back the long-time dictator, Mubarak, or whether to support the demands of the pro-democracy movement. Thus contrary to Harvey’s expectations, the United States has not benefited vis-à-vis its international rivals due to the Iraq war. The American government has spent a lot of money for very little return, its firms do not control Iraq’s oil wealth, and China and India – arguably America’s largest competitors - have greater access to Iraq’s oil. Unless there is another terrorist attack or major threat to American national interests, it seems the Obama administration will continue to disengage militarily with the Middle East, and be far more cautious about spreading democracy.

Though the United States lost international prestige and economic resources, the protracted conflict in Iraq has been beneficial to the financial industry and TNCs. As with Vietnam, the war has been profitable for specific industries. The Americans provided contracts to develop Iraq’s oil to companies such as Halliburton and British Petroleum until 2007 when Indian, Chinese and Russian companies took over. Certainly these corporations profited from the war and Halliburton had ties to the Bush administration, but as the war went on, other firms were awarded Iraq’s oil contracts. Also since these corporations are, for the most part, publicly traded companies, regardless of where the oil is sold, the profits go back to the shareholders of these corporations, whether it be international investors or, in the case of Chinese firms, the Chinese Communist Party. The reconstruction and security costs, upwards of $50 billion a year, were paid by the American government with over a third going to private security firms.

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Common in the process of capital imperialism, throughout the war the costs have been paid by American taxpayers, and a government that has grown its debt to fight this war, while the profits have been privatized. The group that has profited from the war in Iraq has been investors. Geopolitical imperialism may have been a major determinant of the American invasion, but the opportunity soon arose for corporations and investors to profit from the war at the expense of the Americans. Capital, though it was not the only driving force behind the initial invasion, took advantage of the situation once the Americans overthrew Saddam’s regime. So though capitalism was a factor, the ideological commitment of Bush administration to democracy and the perceived national security threats were large determinants of the invasion.

The methodology of Hardt and Negri, Panitch and Gindin and Harvey is influenced by historical materialism, yet each of their theories has problems explaining the major interventions of the war on terror. One of the reasons is that capitalism is a major, but not the only, determinant of modern imperialism. Each theory assumes the strength and power of global finance and production was the cause of these conflicts. They assume when the American military invaded Iraq it must have been for its resources or to spread the global neoliberal project. By overemphasizing the role of material factors, critical theories ignore that imperialism may have many complex, and even contradictory, underlying determinants. Even Harvey’s theory, which purports to recognize the distinction between the logic of capitalists and that of politicians, relies upon capitalism as the main reason for the war in Iraq – it was all about oil. What I have shown is that imperialism has not been solely determined by an accumulation strategy for capitalism. Geopolitics and domestic ideational factors have a history of compelling the United States into conflict, depending on the issue and context. It is this combination of

402 Singer, 123.
factors that critical theories of imperialism tend to ignore in favor of more conventional accounts. The war was predominantly motivated by the specific geopolitical imperialism in the post-911 environment, with some firms profiting at the expense of the American government.

Whether the Iraq war was motivated by the Bush administration’s desire to prolong American hegemony, or whether it proves to be a harbinger of the end of United States remains uncertain. By all measures—in terms of lives and money spent—the war was expensive for the Americans and, as of yet, has shown very little direct return for the US government. Some American firms have profited from the initial few years of the conflict, but, in the end, it was international investors that have gained the most. As Arrighi suggests the war was an economic drain for the Americans—taxes were cut by the Bush administration and the war was financed by large deficits, often borrowing money from the Chinese. Yet there was no massive financial or geopolitical crisis as a result of America’s unilateralism, nor did the invasion of Iraq foreshadow further American interventions into regimes such as North Korea or Iran. And although the United States went further in debt due to the war, financial markets continued to function normally with the ability to borrow cheaply from the savings glut in South East Asia. It would take a domestic housing market crisis before the effects of capital imperialism began to challenge the political and economic power of the United States.

403 Arrighi, *Adam Smith in Beijing*, 226.
The 2008 Financial Crisis: What Happened?

The Great Recession has led many scholars to question the hegemony of the United States, which was at the center of the crisis. Since the 1980s, the American government has promoted the financialization of both the US and global economy. Financing was used to overcome barriers to accumulation, opening up new untapped markets for profit. In the US, lax credit requirements integrated lower income Americans into the financial system. Meanwhile, the savings of people in China was used to keep interest rates in the US low, perpetuating a credit bubble by linking American consumers to the Chinese economy. When periodic crises occurred prior 2008, it was usually in emerging economies, such as South America in the 1980s and South East Asia in the 1990s. The sub-prime mortgage crisis of 2008 showed the United States was just as vulnerable to global finance as any other economy. Moreover, America was the hub of a financial system, so the contagion quickly spread to Europe and Asia becoming a truly global financial crisis. After the crisis began, capital imperialism – the power of the financial system and corporations – became a dominant process that conditions the global economy.

The financial crisis cannot be understood without a broader understanding of the global expansion of capitalism in South Asia, the complexity of the financial system, and the specifics of the American housing market. As discussed in chapter 5, neoliberalism arose out of the contradictions in the post-war consensus. After the collapse of the Soviet Union and the opening of China, there were fewer international barriers to investment and profit. The reduction of these barriers led to an explosion of global investment capital, particularly in East Asia. However, along with the growth in scope of capital imperialism, its ability to rapidly undermine the
strength of an economy also grew as discussed previously with the 1997 Asian Financial Crisis. Yet, when periodic crises occurred, the American government was available to provide assistance and prevent a broader downturn in the global economy. Prior to 2008, it seemed as though major developed countries benefited from the financialization of markets, with the United States retaining its status of hegemon for nearly two decades after the fall of the USSR. Yet the very method for prolonging America’s dominance through the liberalization of finance led to a contradiction in the global economy in 2008, with the United States at the center.

With trillions of dollars moving around the world in a single day, capital imperialism gained the power to condition countries, and bring about abrupt collapses in the confidence in an economy. One such tool of capital imperialism is through the derivatives market. Derivatives are a risk-assessment tool that is not regulated by the Securities and Exchange Commission (SEC); they are mainly traded over-the-counter (OTC) without publicizing the contract over exchanges. The mortgage-backed securities of Lehman Brothers were largely insured by Credit Default Swaps (CDS). The derivative market linked together investment banks, mortgaged-backed securities, and insurance companies, making the failure of one institution a systemic threat to the capitalist system. The value of the overall derivatives market is estimated by the Bank for International Settlement (BIS) to be around $83 trillion for the futures market, $594 trillion for over-the-counter exchanges, and central to the credit market $57 trillion in CDS in June of 2008.⁴⁰⁴

While these CDSs and derivatives do have some link to an underlying asset, albeit a far removed one, the growth in this market, particularly when firms leverage billions to hedge

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against risk using CDSs, is a modern account of what Marx called fictitious capital. As Marx stated,

All this paper actually represents nothing more than accumulated claims, or legal titles, to future production whose money or capital value represents either no capital at all, as in the case of state debts, or is regulated independently of the value of real capital which it represents … In all countries based on capitalist production, there exists in this form an enormous quantity of so-called interest-bearing capital, or moneyed capital. And by accumulation of money-capital nothing more, in the main, is connoted than an accumulation of these claims on production, an accumulation of the market-price, the illusory capital-value of these claims.  

The nearly $600 trillion dollars is not invested in an underlying asset where actual commodities are produced. Rather this money is invested to mitigate the risk of an asset declining in value. Essentially, investment firms bet whether an asset will gain value and profit if it does. Hedge funds can also short sell an asset. Short selling occurs when investors bet a stock or asset will lose money then reap a profit if the value of a stock declines.

This financial tool was brought into markets as an incentive for investors to publicize bad business practices. However, since the market is largely unregulated, shorting a firm can set off a panic, turning a minor downturn into a crisis. The trillion-dollar scope of derivatives is a modern form of fictitious capital that further empowers capital imperialism. Nothing tangible is produced despite the vast amounts of money. The role of derivatives was largely ignored until the collapse of the American housing market, turning a recession into a global economic crisis.

The downturn in the American housing market began in 2007 and led to a full financial crisis in the autumn of 2008. The long-term determinants of the crisis range from the American


proclivity towards home-ownership to the gradual loosening of regulations over finance and mortgage lending since the 1980s. A key institutional change passed by Congress in 1999, the Financial Services Modernization Act, eliminated the barrier between commercial and investment banks, leading to the securitization of mortgages – bundling together numerous mortgages for the purposes of investment. This Act also struck down one of the most significant regulations, the Glass-Steagall Act passed during the Great Depression, though many of the provisions of the Act has already been avoided by financial firms. The liberalization of mortgage terms led homeowners to take out variable-rate interest mortgages in order to finance the purchases of a home; by 2004-05 nearly one third of all homes purchased in the United States had an adjustable rate.407 The popularity of these loans was due to the availability of cheap credit, the lack of regulation over the term of mortgages, the seemingly endless rise in the value of the housing market, and the sales practices by mortgage companies.

After the Dot Com bubble burst and the terrorist attacks in 2001, the American Federal Reserve decided to keep interest rates low in order to prevent a recession. This was to resolve one crisis through a spatial fix by providing a highly profitable market for investors through housing.408 This method of “solving” the recession in 2001 had two consequences: it led banks and investment firms to over-leverage to maximize their profits, and it created an incentive for individuals to take out mortgages with the knowledge that they would be able to sell their home for a substantial profit. However, since profits were so high, it created an incentive for lenders, the government and homeowners to expand the housing market by lowering the requirements for a mortgage. Homeowners with poor credit were offered mortgages at variable or sub-prime


interest rates – that was lending to people who were deemed medium to high risk. In 2002, sub-
prime loans made up only 6 percent of overall mortgages; by 2007, nearly 30 percent of
mortgages were sub-prime.\footnote{John Waggoner. “Subprime woes could spill over into other sectors”. \textit{USA Today}. (March 15th, 2007): http://www.usatoday.com/money/perfi/columnist/waggon/2007-03-15-subprime-woes_N.htm} In order to finance these mortgages, banks securitized, or bundled
together, mortgages into Collateralized Debt Obligations (CDOs) and sold them to investors.
From 2002 to 2006, the general value of houses in the United States increased, allowing
everyone involved in the mortgage market to make a substantial profit.\footnote{Ibid.} Beginning in 2006, an
increasing amount of foreclosures led to a downturn in the value of the housing market, creating
a cascade of problems for the overall economy.

Financial institutions could borrow vast sums to money to invest in mortgages due to
arbitrage between the American and Chinese economies. China began to develop at an extremely
rapid pace throughout the 1990s and early 2000s, largely due to its cheap labour and the low
value of its currency.\footnote{Herman Schwartz “Housing, Global Finance, and American Hegemony: Building Conservative Politics One
then some corporations and firms invested that money into the Dot Com firms and the housing
markets.\footnote{Ibid., 263.} For consumers this also kept interest rates low. The rest of the world relies upon US
consumer demand in order to buy goods produced in emerging economies. Consequently,
countries such as China were willing to lend the Americans money in order to keep the process
going. If this easy liquidity were to dry up, it would place pressure on Federal Reserve to raise
interest rates to attract capital, but it would also make borrowing far more costly to Americans
thereby slowing consumption. To prevent this from taking place, the Chinese kept purchasing
US debt in order to fund American private and public spending. This is an obvious contradiction in the relationship between China and America. China is America’s largest modern geopolitical competitor, but it is also the country that is financing its consumer debt and military spending. If, as Harvey and Arrighi suggest, inter-state competition between these two powers is a major feature of the international system, it could prove to be a contradiction between geocapital and capital imperialism. Despite the unity of global economy, there may be tension and conflict on the political level. The financial markets push the two countries together, but political leaders are hesitant about a closer partnership.

The system of arbitrage was disrupted when the decline in the housing market took place in 2007 and began to have significant repercussions on the American and global economy. The problem started with the investment firms Bear Stearns, which required a bailout in the spring of 2008 and was eventually sold to JP Morgan. The downturn of the financial industry became even more evident when two government-backed institutions, Fannie Mae and Freddie Mac, which invested heavily in subprime loans, required government intervention in September 2008. By the end of 2008, the problem became cyclical: many homeowners who took out sub-prime loans had their interest rates rise, which led to greater difficulty refinancing and selling their homes, placing further downward pressure on the housing market. Those capable of making their mortgage payments were left with negative equity – the value of their homes was less than the mortgage, leading to a substantial loss of savings. As foreclosures increased, banks were left with homes that could not be sold and were steadily decreasing in value. Furthermore, many major financial institutions were over-leveraged in order to sell mortgages, making them even more vulnerable to a decline in the housing market. To make matters worse, investors, often

Ibid. 264.
afraid of losing money in an already fragile economic climate, were far less likely to invest in banks and institutions that had sold sub-prime mortgages, making liquidity increasingly scarce. These three factors led to what may have started as a downtown in the American economy becoming a global financial crisis.

Although the underlying problems in the housing market may have laid the foundations for a downturn in the US economy, the initiating factor for the crisis was the bankruptcy of the investment firm Lehman Brothers. Like many other firms, Lehman Brothers invested heavily in mortgaged-backed securities. By September 2008, Lehman Brothers had $600 billion dollars worth of sub-prime mortgages. These “toxic assets” led to a decline in stock value, and the inability to secure private sector loans due to over-leveraging – it became increasingly evident Lehman would need a bailout like Bear Stearns and Fannie Mae and Freddie Mac. The United States government made a key decision that had repercussions for the entire global economy – Treasury and the US Federal Reserve decided to break the precedent of bailing out institutions and let Lehman Brothers declare bankruptcy. This was a surprising outcome given the history of Washington and Wall Street. The financial industry has had open access to US policymakers and the Federal Reserve, often dictating the terms of the regulatory debate. Wall Street firms have a vast pool of lobbyists both outside and within government, with many members of the Treasury Department coming directly from the financial sector. So when the Federal Reserve and


416 Ibid.
Treasury did not provide a loan to Lehman Brothers, it had dramatic effects on the global economy.

The immediate reactions of both domestic and international markets were severe: credit markets froze as the market for commercial paper dried up. Banks could no longer risk lending to each other. The crisis went global and by the end of October most major stock markets were down by around 30%. According to the International Labour Organization, by the end of 2009, 34 million people across the global had lost their jobs due to the recession that followed the crisis (a statistic which does not include those underemployed or already unemployed).

The decline in the US housing market after the bankruptcy of Lehman Brothers spread to other countries: AIG, a global insurance company almost went bankrupt due to insuring mortgages with CDSs; Britain’s Northern Rock was nationalized; and Iceland had a banking crisis. These events led Britain’s *The Economist* to argue that “the world economy is ‘entering a major downturn’ in the face of ‘the most dangerous shock’ to rich-country financial markets since the 1930s”.

The crisis that resulted from the Lehman Brothers bankruptcy initiated a financial panic throughout the global economy. Like other examples of capital imperialism, the housing market went through a period of boom – where investors and banking institutions amassed vast profits – which was followed by panic requiring government intervention. Where this crisis differed is that it was started in the largest economy in the world and the government acted atypically by not

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providing public money for a bailout.\textsuperscript{421} The resulting collapse of Lehman Brothers threatened the stability of the entire global financial system. The United States deregulated its financial markets from the 1970s onwards in order to strengthen its economy against competitors, but the credit crunch had the opposite outcome. It exposed the vulnerability of the American economy to capital imperialism. By 2008, New York had become central to the global financial system, with the Federal Reserve, Treasury and presidential administrations often capitulating to the demands of the financial industry. However, the very process that was intended to empower the United States undermined its economic stability and prosperity.

Furthermore, the financial crisis highlights the duality of capital imperialism. It is a transnational process of accumulation that can go where markets are open, but it takes on specific characteristics of the culture, institutions and politics of a country. Investment money can come from almost anywhere in the world. Yet financial markets have their own unique qualities which condition the response of governments to a crisis. For example, since it was the global reserve currency, the United States has many methods at its disposal to mitigate the crisis, such as the TARP program and quantitative easing, that might otherwise be unavailable to another country.\textsuperscript{422} The crisis showed the ability of capital imperialism to spread a financial contagion from the United States to the rest of the world. Countries attached to the Euro cannot devalue their currencies and are constrained by their institutional commitments.\textsuperscript{423} As the wide array of responses to the crisis will show, capital imperialism is an uneven process that varies


\textsuperscript{422} Ibid, 188.

\textsuperscript{423} Ibid, 53.
depending on the context, the level of financialization and the specific economic and political structure of a country.

**A Global Recession/Multiple Crises**

Since the crisis of 2008, the recession has spread throughout the global economy. Though the crisis is global, linking countries and regions together through the international financial system, each region has experienced it in unique ways based upon numerous domestic factors. The purpose of the next three sections is to use a DHM understanding of identity/difference to explore the consequences of the recession in each major region in the global economy. Within the global financial system, each country is trying to manage capital imperialism. For the United States, with its divided branches of government, the recession has brought about a variety of populist movements against the intervention of the government in the economy. Initially both the Bush and Obama administrations enacted policies to help manage the effects of the crisis, but since the economic downturn has been protracted, the polarization of American politics has led to political deadlock over the appropriate response of the government to the recession. This almost led to a default on US debt – a historically unprecedented event that would have been an economic catastrophe.

For countries in Europe, the problems are related to the debt levels brought on by the recession and the monetary restrictions of the Euro. The main determinants of the crisis in Europe are political, economic and institutional. Financial markets will not lend the PIIGS money which only further raises borrowing costs. The prospect of a looming default undermines confidence in the Euro. Due to the institutional restrictions of the EU, the policy options are limited: the PIIGS cannot devalue their currencies, nor can they engage in quantitative easing
like the American government. Instead they have become reliant upon wealthier countries like Germany and France for periodic bailouts and been forced to adopt painful austerity measures. If a country is forced to leave, or there are widespread defaults, there is fear that it could lead to another panic and spread to other countries.

On the surface it seems as though the Chinese economy has come through the recession relatively unscathed. Yet the financial crisis has highlighted numerous potential problems that could undermine its economic growth and stability. The country has become too reliant upon American consumption for economic growth. The massive investment in US debt kept Americans buying Chinese goods throughout the 2000s, and another downturn in the US could have significant repercussions for the regime. In America, it has also led to a contradiction between those in defense and in business. China is viewed as a major security threat by the defense establishment, yet business and the US economy are reliant upon its cheap labour. Moreover, there are signs of internal weakness in the Chinese economy, particularly in its housing market. An economic crisis in China has the potential to undermine the regime and could have dire consequences for the rest of the global economy.

The United States and the Great Recession

The credit crunch that followed the bankruptcy of Lehman Brothers led a crisis in the global financial system – a problem that continues to persist several years after the initial panic. Since the 1970s, America has been the main beneficiary of the financialization of the global economic system. In the past, Washington used its economic and political resources to prevent a financial panic from turning into a global catastrophe. There were numerous times throughout
the 1980s and 1990s Washington intervened to prevent the failure of a major investment bank or a country defaulting on its loans. But by the turn of the millennium, finance capital had become too large for the American government to try to manage. When the American government allowed Lehman Brothers to declare bankruptcy, it sent a wave of panic throughout the global financial system. Investors were worried that even the largest firms could potentially fail and quickly withdrew from the financial system. The crisis may have started in the US, but due to economic globalization, it quickly spread to Europe, South America and South East Asia. Capital imperialism conditions the responses of governments to the crisis.

After the collapse of Lehman Brothers, there was pressure on the US government to offer a bailout to the financial industry to unfreeze capital markets – the failure of AIG, JP Morgan and Bank of America would have dire repercussions for the global economy. However, contrary to the expectations of the financial industry, the initial stimulus bill – TARP - failed in the US House of Representatives, bringing markets to the point of collapse. For political reasons the United States government would not ensure the viability of some of the most powerful banks in the financial system. A central network did not react to a crisis that threatened the stability of the entire capitalist system, which is contrary to the assumptions of Hardt and Negri. Political leaders in one of the most powerful states that perpetuates Empire ignored the pressure of the financial system. Some of the largest financial corporations relied upon the Washington for a bailout to prevent their collapse. The United States government acted contrary to the goals of finance capital, showing tension between politicians and the financial industry.

within the United States. If indeed Empire harmonizes both economic and political power, then at least in the case of the United States in a time of crisis, the opposite seemed to be the case.

Initially, there was a consensus among wealthy industrialized countries to work together to mitigate the crisis. The G-20 meetings in London and Pittsburgh were hailed as a success, with the hope of forging a “Bretton Woods II” – a new major regulatory regime of global finance. Yet this accord quickly fell apart: there has been disagreement over the implementation of new financial regulations. Several key proposed policy changes have met with criticism from the international community. There are disputes over whether to implement new regulations, such as a proposed $2 trillion bank tax to pay for future bailouts, with Japan, China and Canada in opposition, with support from United States, UK, and the rest of Europe. While these conflicts may seem minor on the surface, each country is asserting its national interest based on the degree it has been affected by the financial crisis, not on the whims of the United States or the demands of the financial system.

American and British banks were over-leveraged and overexposed, requiring substantial government funds to bailout; the US and UK would then benefit from a proposed bank tax. Canada and China did not require a massive bailout of their banking sectors, and a tax would penalize their intuitions despite their solvency during the crisis. Instituting new international regulations relies on countries independently agreeing to implement substantive policy changes. In the post-World War II period, America would act as the hegemon and others would tend to


follow. Now, there appears to be little the Americans can do to compel other countries to enact new regulations. Contrary to Hardt and Negri’s assumptions, since the financial crisis there has been a lack of consensus among developed industrialized countries about how to deal with the crisis. National interest remains a key motivation for the actions of states in the international economic system.

Despite the problems of the crisis, the American financial system has the unique ability to attract capital due to its central position in the global economy. The United States serves as the global reserve currency, and its treasury bills are considered among the safest investments. This privileged position had led many critical theorists to assume the United States has control over the global financial system. Panitch and Gindin argue the increased intervention of the United States in the economy—particularly in the creation of too-big-to-fail corporations—expanded the United States’ control over the international economy.\(^\text{427}\) The United States government willingly instituted the neo-liberal policies that facilitated the creation and enlargement of the financial industry—the US Federal Reserve and Treasury were capable of bailing out intermittent crises.\(^\text{428}\) Furthermore, the United States government chose not regulate many of the financial tools used by the financial sector that led to the crisis. The repeal of the Glass-Steagall Act allowed deposit banks to engage in investment banking. Low interest rates were set and prolonged by the Federal Reserve, promoting over-leveraging and taking on riskier assets. The government also gave Fannie Mae and Freddie Mac explicit targets for lending to lower income people on sub-prime terms.\(^\text{429}\) Panitch and Gindin argue the United States guides the domestic


\(^{428}\) Ibid., 261.

and international economy in order to maximize profitability for both investors and the American government.

The United States government did institute many of the policies that led to the creation of financial crisis, however the government could not control nor predict many of the consequences of capital imperialism. Panitch and Gindin conflate the centrality of the United States in the international economic system, which is indisputable, with its control over the economic system. The American economy does give the government certain capabilities over its competitors, but the government does not automatically act in accordance with the wishes of finance capital. If this were the case, the United States government would have bailed out Lehman Brothers or passed the first TARP bailout. Not doing so led to a loss of trillions of dollars in future bailouts and an increase in unemployment throughout America. Washington had already set a precedent to markets that the Federal Reserve was willing to bail out corporations, creating an expectation the government would act as lender of last resort. There was pressure on the US government to bailout Lehman Brothers, but was ignored by Congress. The best account behind letting Lehman Brothers fail was to reintroduce “moral hazard” to the banking system. While the principle of moral hazard is an important ideal for capitalism, the United States government had a history of not following this principle by previously bailing out Bear Sterns and Fannie Mae and Freddie Mac. It was willing to intervene when necessary to protect the interests of capital. However because the United States government did not know how much Lehman Brothers, or any other bank, held in mortgage-backed securities, nor the deep

interconnection of the international financial system it led a crisis that threatened the entire capitalist system. Despite its centrality, America is still vulnerable to crises.

A contributing factor to the crisis was the American government’s lack of regulation of derivatives. The decline of the housing market created a systemic crisis in the financial system. When Lehman Brothers went bankrupt, the CDSs were activated. However, the major insurer, AIG, did not have the money to pay the massive amount for Lehman’s default on its debt. These derivatives represent trillions of dollars of fictitious capital that have minimal oversight by the United States government. The sheer scope of the money in risk mitigation in the financial system dwarfs the size of the American or for that matter the global economy.

If the US government is directing the global financial system, and working for its benefit, there is no reasonable explanation why it left this multi-trillion dollar market unregulated or acted so contrary to its demands to the extent that it almost destroyed the American economy. The United States government had information about the possible detrimental effects of OTC derivatives and CDSs, and there was even internal pressure from Treasury in the 1990s under the Clinton administration to regulate the derivatives market. In 2002, Warren Buffet, a financial speculator who made billions in the 1990s, called derivatives “financial weapons of mass destruction” due to the incentive for financial institutions to increase the amount of risk and over-leverage. However, regulation of this market was rejected by the Federal Reserve as going against the basic ideals of the free market. This calls into question one of the main theoretical assumptions of Panitch and Gindin that the United States is directing capitalism in the


interests of finance capital. Indeed, derivatives are a part of capital imperialism – trillions of dollars of private unregulated money that has the ability to destroy corporations and governments at an unprecedented pace.

Eventually the economic downturn and the prospect of a prolonged global depression put enough pressure on the United States government to act, but even that reaction shows a clear indication of tension between politicians and capitalists that continues with the Obama presidency. When passing TARP, both Democrats and Republicans faced pressure from constituents not to bail out the financial industry. In fact, Congress did not pass the first bailout package in September of 2008 which exacerbated the crisis. If the government was working in the interests of capital, the United States government would not have acted so contrary to their demands. However, there were other determinants at work. Politicians were afraid of the voter backlash in the 2008 election and ignored the pressure the financial industry was putting on the government to introduce legislation to unfreeze credit markets to ensure no other major industries would collapse. In the face of a massive recession in 2009, there was even a political battle to pass Obama’s stimulus plan. But even then, it has been criticized by a wide variety of academics and journalists. The economist Paul Krugman argued Obama’s stimulus package did not go ‘far enough’ in order to get the United States economy growing and that much more spending is required.

The economic situation has gotten marginally better but still remains unfavourable: unemployment reached 9 percent, and the American economy grew by only 0.25 percent in

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Growth since then has been sluggish. Despite this, further stimulus spending is politically difficult – there has been significant pressure both inside government and from Tea Party groups to tighten government spending. The political pressure to do so has made significant interventions to regulate the economy difficult; TARP failed initially and Obama’s stimulus plan was influenced largely by the political concerns of a Democratic Congress rather than the needs of the economy. Thus David Harvey’s theory shares many of the same insights as my analysis of the American response to the crisis. Political and economic motivations are not always harmonious. Politicians may act in order to promote the interests of capital, but due to their geographical and institutional position, political concerns often take priority over the demands of finance capital.

In times of economic crisis, the US government and capital imperialism can diverge. Policy outcomes to crises tend to be a catch-all shaped by domestic political considerations, ideology, and, only at times the needs of the economy. Also, the American government does not exclusively control its own nor the international economy. Although its wealth and central market position give it certain unique characteristics, there are aspects of the international economy, like derivatives and CDSs, that the SEC does not regulate. This makes it difficult to argue the government is directing global financial flows when they cause an economic meltdown in the United States. Though the United States government does often work harmoniously with the interests of the financial industry, tensions can arise between these institutions when political

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motives and the needs of the financial sector diverge during times of crisis. Two seemingly contradictory outcomes of this crisis have been to place further pressure on the United States government to cater the interests of finance capital on the one hand, and to create more conflict between politicians, the financial industry and the American public on the other. TARP and the Obama stimulus package gave the financial industry billions of dollars of public money in bailouts and tax breaks, while provoking small-government conservatives and libertarians in the United States. This is a clear tension between the demands of capital imperialism and the domestic considerations that come from the American public.

The crisis was at first concentrated mostly in the developed world, with China and South Asia far less affected by the credit crunch. According to Arrighi this only further indicates that the American cycle of capital accumulation is coming to an end. In his view, economic power is shifting to China, as evidenced by its considerable economic growth over the past few decades, with the credit crunch as a major event in US decline. While it is true that the subprime mortgage crisis led to one of the largest contractions in the American economy since the Great Depression, it has not hampered the viability of America’s economy, nor threatened its economic hegemony. Even following the devastating losses of 2008, American GDP growth had recovered by the middle of 2009, and actually grew at rate of 3.1% in the last quarter of 2010. Although economic growth did slow to 1.9% by the first quarter of 2011, which is not high


438 Arrighi, Adam Smith in Beijing, 3.


440 Ibid.
by contemporary standards, this is still impressive given size of the US economy and the uncertainty present throughout the rest of the global economy. It is important to keep in mind that America is recovering from the worst financial crisis in 70 years, and four quarters of lost growth is actually a modest impact on the American economy as a whole. At the same time, the housing market – the catalyst of the recession – has stabilized over the past three years, with homes in most markets regaining the value they held in 2002, before the excesses of the sub-prime market.\footnote{Maureen Maitland and David Blitzer, “S&P/Case-Shiller Home Price Indices 2010, A Year In Review.” \textit{S&P Indices; a Year in Review}, (January 2011), http://www.standardandpoors.com} Although readjustment represents a great deal of lost equity for homeowners and mortgage firms, the period from 2003 to 2007 was the exception for the housing market rather than the rule, in the sense that home prices were over-inflated due to low interest rates, cheap credit and low standards for borrowing. Yet even with the dramatic collapse of the housing market, by 2011 prices and home sales had stabilized at pre-bubble levels, and America had begun to experience modest levels of economic growth.

While it is difficult to assess whether the crisis is the harbinger of the end of American economic primacy, the impact of these crises should not be overstated. Even with the uncertainty surrounding its recovery from the Great Recession, America still accounts for roughly one-fifth of global economic output in 2009,\footnote{International Monetary Fund, “World Economic Outlook Database - October 2010: Nominal GDP list of countries,” International Monetary Fund. (2010) http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx} more than three times the total of any other state. Furthermore, compared to other countries, the American recession was neither as deep nor as prolonged as it otherwise might have been – a testament to the strength of the economy of the United States. Despite mounting concerns over its overall debt level, the
American dollar still functions as the world’s reserve currency, easily outstripping the Euro and the Yen as the medium in which international monetary transactions are denominated. As will be discussed below in greater detail, even its precarious position as a debtor nation to rivals such as China is not wholly without advantages, as the sheer scale of American indebtedness provides Washington with substantial leverage over Beijing. As a consequence, while it cannot be denied that there are problems facing the American economy, it would be premature to suggest that due to the crisis alone America lost its position as the largest and most affluent actor in the global system or that these challenges will lead to the terminal decline in American economic primacy.

Although by most accounts the United States is in a favourable position vis-à-vis the rest of the major countries in the global economy, its position as a central network in the capitalist system could be threatened by its domestic politics conflicting with the demands of the financial system. One such event took place in the summer of 2011 when the American government reached its debt ceiling. A political crisis ensued between President Obama who wanted to raise the limit while implementing tax increases on the wealthiest to lower the deficit, and House Republicans who refused to agree to higher taxes and demanded substantial cuts to the budget. The Republicans were using a default on American debt as a political tool to extract concessions from the Obama administration. The crisis lasted until the day of a potential default, with Obama agreeing to cut $2.4 trillion from the budget for the debt ceiling to be raised past the 2012 presidential election. While a crisis was averted, the polarization of the debate on such an important issue as America’s debt does not bode well for the future of the United States within


444 Ibid.
the capitalist system. For one, the spending cuts demanded by the Republicans are reminiscent of the cuts demanded by Congress during Roosevelt’s presidency in 1938. Unemployment remains high in the United States as the TARP money did not translate into loans to consumers – most American financial institutions paid down debt or simply purchased US debt for a safe return.\textsuperscript{445} Without banks lending to consumers, and the government initiating a series of austerity measures, there are fears the United States could fall, yet again, into crisis.

However, a more substantial matter is that the US debt ceiling was used for partisan politics with Republicans willing to allow the American government to go into default. Many Republicans in the House of Representatives were elected in 2010 advocating the libertarian views of the Tea Party which sought to dramatically reduce the intervention of government in the economy. In what would have amounted to a default, was viewed by this group as a method to heavily constrain the Federal government – the United States would no longer be able to run a deficit.\textsuperscript{446} The US Treasury would take “extraordinary measures” in order to pay down the minimum interest on the debt, but there would be massive cuts to social spending such as Medicare, Social Security and military personnel paychecks.\textsuperscript{447} On the domestic front, the withdrawal of nearly 70\% of government discretionary spending from the economy would grind consumer spending to a halt, leading to a massive recession.\textsuperscript{448} This of course does not take into account the international ramifications of a default on US debt. The outcome for the global

\textsuperscript{445} The Economist, “Contagion, What Contagion?” \textit{The Economist} (December 3\textsuperscript{rd}, 2011): http://www.economist.com/node/21541020


\textsuperscript{448} Ibid.
economy would be catastrophic. First, the collapse in American consumer demand would lead to a drop in trade for almost every economy that sells goods and services to the US, which would affect almost every country in some form. Secondly, US Treasury bills denominated in US dollars – the world’s reserve currency – would effectively be worthless, meaning that any country, government, corporation or pension fund that holds US debt would lose trillions.\footnote{Ian Tilley, “Bernanke Warns on Debt-Limit ‘Chaos’” \textit{The Wall Street Journal}. (March 1\textsuperscript{st}, 2011): http://blogs.wsj.com/economics/2011/03/01/bernanke-warns-on-debt-limit-chaos/} Thirdly, Treasury bills are also viewed as a baseline for other stocks and bonds due the fact investors view US debt as the safest. Without such a barometer, financial markets would descend into chaos as investors would dump Treasury bills onto the market. The combined result of these three factors – plus numerous other unforeseeable negative outcomes – would have likely have led to the most protracted and dire global depression since the 1930s.\footnote{Ibid.}

With the severity of these consequences, it is surprising how casually the Republicans proposed it as a way to curtail government spending, and how close the government came to defaulting on its debt. Previous increases to the debt ceiling have been relatively apolitical affairs: regardless of the administration the debate is typically over budgetary matters rather than the total accrued debt. This political polarization over an issue of vital importance to the American and global economy is problematic for the long-term viability of the United States as a central network in capitalism. If another major crisis occurs – perhaps an investment bank failure or the potential default of a European economy – Washington may not respond, or enact policies that will exacerbate a crisis. Geopolitical imperialism has often taken different forms based on America’s cultural values, history and international competition. During the Cold War, this
meant interventions in Korea and Vietnam. In 2003 this led the Bush administration to invade Iraq. As of yet, these conflicts may have been expensive in both human lives and economic resources, but they did not threaten the stability of the international economic system. With the rise in the dominance of capital imperialism since the 1980s and given the recent history of American policies since the start of the crisis, the US government and the financial system may, yet again, come into conflict. The result could irreparably damage the global economy and undermine the United States as a global superpower.

The United States is an important network in the international capitalist system, but it too can face problems beyond its control due to the tension between geopolitical and capital imperialism. While it is premature to argue that the financial crisis undermined America’s dominant role in the global economy, it does indicate that there are significant tensions, and potential contradictions, between the American government and global finance in times of crisis. The deregulation of the American financial sector in the late 1990s coupled with low interest and high savings from China and South Asia led to an inflating housing market in many developed countries. When prices collapsed in 2008, forcing Lehman Brothers into bankruptcy, international financial markets expected the United States government would act as lender-of-last resort. Domestic politics took priority over the bailout of Lehman Brothers as well as the initial TARP package leading to conflict between the financial system and the US government. Each of the major theorists on imperialism, to a varying degree, provides us with analysis of the dynamics at work, particularly David Harvey’s insights on the dual logics between capitalists and politicians. These diverging interests led to the failure of Lehman Brothers, which froze credit markets, and the failure of the first TARP bailout further exacerbated the crisis. This “dual
logic” was in actuality a method of accumulation, capital imperialism that turned against the world’s largest economy.

It is undeniable America has been a central network for the capitalist system, often leading the way to opening new markets and liberalizing finance. Yet after the 2008 credit crunch, it too has been trying to manage a crisis in capitalism. America’s centrality should not be conflated with the assumption it has control over the capitalist system. Certainly, its large wealthy consumer base and its status as the world’s reserve currency provide it unique capabilities, but finance is global in scope and larger in wealth than the US real productive economy. Capital imperialism compels countries to enact policies favourable to investors, financial firms, and corporations, yet the US government has reacted erratically to this pressure. This is due to domestic political pressure from Americans and the structure of the US political system. Providing public loans to the financial industry has proven unpopular for left-wing Democratic and right-wing Republicans. Also, the Tea Party Republicans have proven to be obstructionist when it comes to even simple functions of the government, such as raising the debt ceiling which up until 2011 was a standard procedure. Though America may have a relatively strong economy considering the depths of the recession, its politics have proven to be a barrier to capital imperialism.

The Great Recession: Crisis Management in Europe

The period following the financial crisis has, if anything, shown the ability of capital imperialism to condition the economics and politics of states throughout the world. The subprime contagion quickly spread, albeit to varying degrees, to the rest of the global economy. Initially, in response to the crisis there was a great deal of consensus between countries over how to
mitigate the impact of the crisis: countries would effectively absorb the costs of their financial institutions, thereby nationalizing private losses. However, by 2010 financial unevenness in the global economy began to reemerge. In countries tied to the Euro this mounting debt led a sovereign debt crisis in many regions as international investors dumped bonds from European countries out of fear of a default. The events since the crisis have led to growing conflict between the three processes of imperialism in almost every major economy. In each case, with the exception of China for unique reasons, the demands of domestic politics, regional and location and financial markets have led to the polarization of the forces of imperialism. For the EU, capital imperialism has threatened the stability of the Eurozone, forcing governments to adopt painful and unpopular austerity measures.

The ongoing debt crisis has revealed the shortcomings of Europe’s monetary union to allow countries to deal with a debt crisis; this will likely cripple the EU for years to come. The strains imposed by the ongoing debt crisis will only be protracted by the inability of the Americans and Europeans to adequately deal with crisis. Yet again, Gowan and Harvey provide valuable theoretical insights on the rising tensions within Europe and between the Eurozone and the United States. During the period immediately following the adoption of the Euro, Europe’s loose monetary union seemed to benefit every country that was involved.\(^\text{451}\) European firms were able to sell their goods with fewer barriers in Eurozone markets, and European governments were able to take advantage of the lower interest rates that resulted from what was essentially the supranationalization of the Deutschmark. During the 2000s when the global economy was relatively prosperous the situation worked out well. Germany could sell its goods

in an open market with limited trade restrictions and southern Europeans counties could borrow at low rates to fund their social expenditure.

However, the 2008 financial crisis and the subsequent recession have highlighted the problems associated with trying to develop a common currency for a region as varied as the Eurozone. The 17 countries that use the Euro are bound by treaty commitments to abide by the policies set out by the European Central Bank (ECB), which sets interest rates for the Eurozone. Nonetheless, a true fiscal union does not exist between EU member-states. Guidelines do exist to limit overall debt-to-GDP ratios and curtail annual deficit spending, but the enforcement mechanism for these rules is weak, and is often disregarded by the more powerful countries in the EU. At the national level, each country sets its own budget, allocates its resources according to its own priorities and accumulates its own sovereign debt. Contrary to the assumptions of Hardt and Negri, this has led to high degree of incoherence in European policy, as well as sparking a crisis between prudent northern European countries and the spendthrift south. In contrast their northern counterparts, Mediterranean governments chose to borrow cheaply using the favourable interest rates that they gained through the adoption of the Euro.

As a result of this borrowing and the crisis, a major sovereign debt crisis has occurred in Portugal, Italy, Ireland Greece and Spain (PIIGS), all of which, with the exception of Ireland, accumulated high levels of debt in the years prior to 2008. So far, it is the Greek economy that has teetered closest to a full default, reaching an unsustainable 140% debt-to-GDP ratio in 2011. Financial markets, sensing that Greece is unable to carry such a large debt given the size of its economy fled Greek bonds, driving up borrowing costs. In response, Germany, France and

452 Ibid., 118.

the IMF have provided ad hoc bailouts through the European Financial Stability Facility (EFSF) in order to prevent a default that could undermine the Euro and lead to a broader crisis in the Eurozone. But despite receiving billions of Euros in aid, Greek 10 year bond yields remain high, indicating a low degree of investor confidence in Greece’s long-term economic prospects. This is partially due to the unpopularity of the austerity measures demanded by Germans in return for bailouts. The situation has deteriorated to the point where German and French leaders have started to openly discuss the possibility of an orderly default, in recognition that Greece is too deeply in debt to ever pay back investors.

The issues surrounding Greece’s looming possible default have profound implications for the long-term economic prospects of the Eurozone as a whole. In responding to this crisis, European leaders have been forced to choose between three untenable courses of action, all of which have the potential to undermine the European Union and its common currency. The first option open to European governments is to continue to provide bail outs to its insolvent members on an ad hoc basis; by drawing upon the resources of its richer members and the IMF the EU’s leaders can stave off the immediate threat of default. So far this has been the policy adopted for dealing with Ireland and Greece, but the strategy is untenable in the longer term; a programme of open-ended bailouts is deeply unpopular in Germany and France, while the austerity measures designed to end the need for external loans have been met with protests in debtor states. Given current conditions, even with Greece’s “haircut” of its debt in early 2012, it is probably futile to hope that indebted countries will eventually become solvent, or that Europe’s debt crisis will abate in absence of structural reforms or sovereign default. Moreover, endless bailouts would set the precedent that Southern European countries can amass massive debts at the expense of the

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prudent North, which would only further alienate electors and corporations in countries such as Germany where the crisis has not been as protracted.

Another scenario facing European states is a major restructuring of the Eurozone, which will end with several countries being forced to abandon the common currency. Such a retrenchment would recognize that the structure of the system is unworkable, and lead to the stronger countries retaining the Euro and the weaker economies reverting to their old national currencies. At first glance, this scenario may not seem overly likely, since the mere mention of Greece leaving the Eurozone can spark fears about capital flight that will threaten the overall economic stability of the EU.\footnote{Larry Elliot, “Greece wouldn't find it easy to leave the euro” The Guardian, April 20th, 2010, http://www.guardian.co.uk/world/2010/apr/29/greece-euro-debt-crisis} As in the case of sovereign defaults, European leaders do not want to set the precedent that members can leave the Eurozone, particularly since there is no established method for a state to return its traditional currency.\footnote{Ibid.} Nonetheless, if Greece is forced to default on its debt, which is increasingly likely, and the other PIIGS start to consider default as well, there will be intense pressure brought to bear on policymakers to drastically restructure the Eurozone, which can only undermine the EU’s long-term goal of continental integration. Even in the event that the Eurozone remains intact, European leaders will be left with a financially weakened institution suffering from severe internal cleavages between its members. At the same time, since the economic prospects for the Europe Union remain so dim, it is unlikely that its member-states will be able to overcome their looming social, demographic and security challenges.

A solution to this crisis proposed in November of 2011 was for fiscal integration of the European economies in exchange for liquidity injections from the ECB. This measure was
introduced after Italian bond yields rose to an unsustainable level with many leaders worried the country was far too large and in debt to bail out should investors lose faith in Italian bonds. The fiscal union is intended to ensure greater stability from some of the weaker southern economies through stringent fiscal regulations and new austerity measures.\textsuperscript{457} The purpose of this union is to provide money from Germany through the ECB to buy bonds in order to stabilize the PIIGS. In return, southern European countries lose a degree of fiscal autonomy through oversight over their budgets by limiting deficits to 0.5\% of GDP.\textsuperscript{458} This proposal will limit the growth of government programs by placing budgetary oversight in the hands of the European Commission instead of national legislatures. Ideally, this stipulation is intended to ease investor confidence by ensuring a restricted role for governments in their economies. Even in good times, but particularly in recessions, this is an extremely stringent limitation on the ability of governments to introduce fiscal stimulus. The intent of the union is to keep governments in the future from too much intervention in their economies regardless of the circumstances or the demands of the public.

There are several obvious political issues with the proposed union. To begin with, the UK has vetoed its participation in this union – it does not want the financial centre of London to have to comply with far more stringent continental standards, nor does it want to pay a proposed financial transaction tax.\textsuperscript{459} London has long been an international financial centre and does not want to invite competition from other cities. More substantively, the proposed fiscal union is wildly elitist and undemocratic. It takes away approval of national budgets from democratically

\textsuperscript{457} Quentin Peel, “Eurozone set for Fiscal Union, Says Merkel” \textit{Financial Times} (December 14\textsuperscript{th} 2011).

\textsuperscript{458} Ibid.

\textsuperscript{459} Ibid.
elected legislatures and places it in the hands of technocrats at the EC. While the EU has traditionally been an elite-driven institution, this proposal will dramatically constrict national governments’ intervention in their economies through extremely tight limits on deficit spending. Ironically, the outcome of the recession for the Euro –and saving the Eurozone- draws quite similar parallels to the gold standard in the 1930s. It is difficult and costly for countries to abandon the Euro for fear of capital flight and instability for the region, yet the austerity measures required to maintain the currency will lead to public outcry and will likely prolong the recession. And similar to the 1930s, without international leadership, the Europeans have elected to meet to demands of the financial system regardless of the consequences this will have on the public.

Immediately after the crisis, the Americans were involved as was the IMF to provide financing for the troubled economies in Europe. However, over time Washington has become more inward-looking and reluctant to take a leadership role in problems on the continent. Contrary to the expectations of Panitch and Gindin, the United States has withdrawn politically and economically from the European debt crisis. In a meeting of the G20 in November 2011, Obama pledged the United States would not offer further financial assistance to beleaguered European economies. 460 This is due to America’s own debt problems, but it is also motivated by domestic political concerns. The Obama administration has difficulty convincing its Congress to spend money on its own economic issues without the added burden of providing more financing for Europe. This is a clear indication of domestic American politics taking priority over the demands of the financial system since the fallout of a sovereign default would likely harm the

entire global economy.\textsuperscript{461} As we can see, the tensions arising from the different processes of imperialism have begun to create conflict between major capitalist countries. Capital imperialism is compelling wealthier countries to provide money for southern European countries, but domestic politics prevents more comprehensive policies to deal with the sovereign crisis. It is now up to the Europeans through the ECB and EFSF to prevent the crisis from spreading from Greece to Italy and other indebted countries. The United States no longer is willing, or able, to take an active role as the lender-of-last-resort in times of crisis. The withdrawal of the United States from international financial affairs has left an opening for other regional and international powers to fill the void.

\textbf{Crisis in the West, Opportunity For China?}

China has certainly achieved an impressive level of economic growth since opening its economy to foreign investment in the late 1970s. The recession in China was neither as protracted nor as deep as it was in America and Europe. It still had a significant drop in trade due to the collapse in demand from its largest exporters, but it quickly rebounded due to a rapid and well financed stimulus package and relatively diversified trade.\textsuperscript{462} Also China has been a major financier of American deficit spending since the start of the crisis, allowing the Americans to spend at low interest rates. Many scholars from both the mainstream literature such as Niall Ferguson and the critical literature such as Giovanni Arrighi have even predicted the 21\textsuperscript{st} century

\textsuperscript{461} Ibid.

will see China arise as the new hegemon.\textsuperscript{463} Of course it is beyond the parameters of DHM to predict the future of the international system. However contrary to the expectations of Arrighi, several domestic and international problems could inhibit China’s ascent. Though Beijing has built institutional and economic barriers to prevent a similar financial catastrophe that struck the US and Europe, there are numerous potential weaknesses in the Chinese economic model that make it susceptible to capital imperialism. There are also several looming demographic and social problems that could derail China’s continued economic development.

China’s sheer economic growth and financial resources over the past few decades have been impressive, however since the recession its economic model has started to show its flaws. In comparison to New York or London, government bureaucrats have a high degree of oversight over China’s financial system. The Chinese Communist Party (CCP) through the People’s Bank of China has a dominant presence in China’s banking sector and can target investment, even foreign investment, to meet political and policy objectives.\textsuperscript{464} This system has obvious advantages: it provides government resources to undertake large projects that private investors may be unwilling to finance. It has been under close government scrutiny that development has taken place. However, the system has numerous flaws. The Chinese government is prone to factionalism where investments are made for political reasons to maximize the power of one faction over another.\textsuperscript{465} Due to the secrecy of China’s government, this has led many analysts to estimate there may be billions worth of bad loans which in the aggregate could inhibit China’s

\textsuperscript{463} Niall Ferguson, \textit{Civilization: The West and the Rest}. (The Penguin Press, New York, 2011).; Arrighi, \textit{Adam Smith in Beijing}.


\textsuperscript{465} Ibid., 4.
future growth.\textsuperscript{466} So although the oversight of the government in China’s financial system makes it less sensitive to the fluctuations of a private market, the system is prone to corruption due to factional infighting from the CCP.

Despite considerable improvements in living standards, China remains a poor country that must grapple with a range of domestic and regional challenges before it can hope to compete with America for preeminence. Even after two decades of exponential growth, the Chinese economy is still less than one-third of the size of its American counterpart,\textsuperscript{467} despite the fact that China’s population is over four times larger than that of the United States. In China, domestic challenges have taken the form of a series of social pathologies that include rampant inequality, a greying population and an unbalanced gender ratio. Even though China has had an impressive level of economic growth in recent years, it must be kept in mind that, despite its growing prosperity, it is still a very poor country. In 2010, the per capita income in China is only USD $7600 (PPP) per year, lower than Jamaica or Albania.\textsuperscript{468} In addition, the distribution of this newfound wealth is incredibly uneven. In 2010, the average rural income was in China only $935 (PPP) per year, while urban workers have an annual income of $2,965 (PPP), more than three times as much as their rural counterparts.\textsuperscript{469} Even if entrepreneurs are making millions from China’s rapid development, the bulk of China’s workforce remains poor, especially in the

\textsuperscript{466} Ibid, 4.


\textsuperscript{468} Ibid.

countryside. In fact, the high level of economic inequality between rural and urban workers has led to concern that the Chinese economy is becoming “Latin Americanized,” or extremely economically unequal.

As part of its efforts to tackle these problems, Beijing has begun to undertake reforms to lower education costs and increase the amount of low-income housing, but these policies are proving expensive, particularly in light of its rapidly greying population. It is estimated that by 2020 one in five people in China will be over the age of 65, placing further pressure on an its old age pension program already viewed as inadequate in many rural regions of the country. By 2050, the median age in China will be 45, and over a third of the Chinese population will over 60 years of age. Even if China can maintain its impressive growth rates, which is by no means assured, the Chinese government will still face enormous challenges providing services to a population that is growing older and more unequal.

In addition to the problems posed by inequality and an aging population, in the next few decades China will face a devastating demographic crisis due to the retention of the ‘family planning policy,’ put in place in 1978 to curb massive population growth by restricting the number of children born to urban families. While the one child policy has been successful in limiting population growth, it has had the unintended effect of creating an increasingly large disparity between males and females, as Chinese parents have demonstrated a marked willingness to abort or abandon unwanted girls. Most countries possess a gender ratio of 103-107 males for every 100 females, in China the gender gap was already 119 men for every 100 women.

470 Ibid.

in 2005. If these trends continue, this will lead to 40 million more men than women by 2020, and anywhere from 17 to 42 million more adult men than women by 2050. There can be little doubt that the high gender imbalance will create a massive strain on the social order, since less wealthy men will be unable to marry and have children, creating a large underclass of poor, low-status males who are unable to find wives. Research conducted in this area has shown that unmarried, economically disadvantaged men tend to commit more violent crime and are more likely to join radical militant movements, and China’s skewed demographic ratio is likely to result in a large pool of frustrated and disenfranchised males. Thus, in coming decades, China will be forced to cope with a population of millions of adult men with little wealth and no stake in the existing order, which will undoubtedly place a significant strain on the resources of the Chinese government as it attempts to maintain order and facilitate economic growth.

So far, China’s high level of economic growth has meant that widening social cleavages have not presented a serious threat to the rule of the CCP, which has managed to bolster its legitimacy by positioning itself as a regime capable of delivering prosperity to its people. However, it must be kept in mind that China’s developmental model is predicated on economic growth and positive relations with the United States, the country that its rise is supposedly threatening to unseat as hegemon of the international system. Despite the global economic


downturn, the United States remains China’s most important export market, making up close to 20% of China’s foreign trade in 2010. There are two major reasons why this is the case. The first has to do with the value of the Renminbi vis-à-vis the US dollar. By comparative standards, China’s currency is pegged well below its US counterpart, providing an immediate economic incentive to American consumers to buy Chinese goods. The second has to do with the low wages paid to Chinese workers. Although the wages of China’s urban workforce have increased over the past decade, they still remain extremely low by American standards. These low wages decrease production costs, which further lowers the price of goods and encourages US consumption. As a result of these factors, Washington has been placing pressure on China to revalue the Renminbi, arguing that it provides an unfair advantage to Chinese producers while at the same time hindering domestic production and consumption. Beijing’s resistance to this pressure stems from its fear that increasing the value of the Renminbi too rapidly could serve as a disincentive for investment, slowing exports to the US and leading to unemployment to China. Since a major downturn in the economy could lead to protests and riots against the ruling party, as well as reducing the resources available for programs designed alleviate China’s social ills, the Chinese government remains dependent on US consumer demand in order to provide the prosperity that it uses to justify its rule.

One consequence of China’s reliance on American consumption to ensure its own economic prosperity has been willingness of the Chinese government to invest heavily in US debt. Throughout the 2000s, Americans were able to borrow massive sums of money at low

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476 Ibid.


478 Ibid.
interest rates without having to worry about a negative reaction from financial markets, and much of that money was provided by Chinese banks. The Chinese were willing to invest in American debt for a number of reasons, the most important being that US Treasury bonds were seen as a safe investment, but also because buying up these assets allowed American consumers to keep spending money on Chinese goods. The trillion dollar obligation the US owes the Chinese places Washington in a weakened position, and on the surface, it does seem as if China holds a great deal of economic leverage over the United States.

However, China’s vast exposure to American debt is a double-edged sword. The Chinese are too invested in the United States to withdraw their financing, which in turn decreases any leverage Beijing might have over American economic policy. Even slowly selling off Treasury bonds would shake the confidence of international investors, leading to an increase in interest rates as the United States struggled to finance its deficit and avoid default. Higher interest rates would also slow US consumer spending, hurting Chinese exports and leading to unemployment as factories close and workers are laid off. In addition to the domestic repercussions, any remaining US debt held by the Chinese government would decline in value, since it would become harder to sell off bonds as US interest rates rose. China’s economic future is therefore tightly bound to that of America, since any action that undermined the US economy would have dire consequences for the Chinese economy as well.

Also China has not completely insulated itself from domestic and international economic turmoil. It has started to reach a development plateau with its low-wage workforce requiring

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higher value-added industries in order to keep up its economic growth.\textsuperscript{480} Similar to other Asian countries, China must diversify its economic and political system if it wants to continue to develop. This does not suggest China will democratize in the near future, however China’s continued development requires increasing the value of the Renminbi to lower the cost of purchasing foreign technology, and reducing the intervention of the Chinese government in order to better meet domestic and foreign consumer demand.\textsuperscript{481} Thus far, the CCP has been willing to gradually increase the Renminbi but has been far more reluctant to withdraw its control from the economy – a testament to a regime that is highly self-conscious. Though China’s growth since 2008 had been mainly due to domestic consumption, there are limits on how protracted this recovery can be if the EU and America fall back into recession. Despite a burgeoning middle class, China still relies on foreign exports in order to keep its job market growing. If another major financial crisis hits a major trading partner, despite the resources of the CCP it could hamper China’s economic growth.

There are also fears China could experience a housing market collapse similar to the United States and Europe. Since the crisis occurred in 2008 the CCP introduced a series of stimulus measures coupled with low interest rates on loans from Chinese banks.\textsuperscript{482} The intent of these policies was to prevent a protracted economic recession from threatening China’s growth and ipso facto the legitimacy of the regime. Similar to the United States in the early 2000s, many Chinese people took out cheap loans and began to speculate on the value of their property.\textsuperscript{483}

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\textsuperscript{481} Ibid.

\textsuperscript{482} Jamil Anderlini “Chinese property: a lofty ceiling” \textit{The Financial Times}. (December 13\textsuperscript{th}, 2011).

\textsuperscript{483} Ibid.
\end{flushleft}
This has led to a housing market boom in areas of China, but has led many to worry that a collapse of the market may harm the Chinese economy. As of December 2011, many Chinese economists predict that major housing markets, such as in Shanghai and Beijing, will decline as much as 25% from their peak value in 2010.\textsuperscript{484} The government has begun to raise interest rates to lower demand, but a correction in the value of the market of this scale could represent the loss of the billions in equity for many Chinese people. While China’s banks have considerable government oversight – preventing a similar bankruptcy to Lehman Brothers in the US – there is potential for a major recession to hit the Chinese economy. So, despite its institutional barriers in place by the CCP, the liberalization of the economy has made China vulnerable to capital imperialism. This could have massive potential consequences on the stability of the Chinese regime and on global economic stability.

Moreover, China’s rapid development has not gone unnoticed by the American security establishment. Currently, two contradictory streams of thought about the relative rise of China are common among Washington policy-makers. First is that a prosperous China will be a positive outcome for regional and global security and development.\textsuperscript{485} Some policy-makers argue China has already integrated peacefully into the international institutions and a wealthier China could be a large market for imports from the US. Thus far, at least, Beijing has been relatively accommodating to Western interests and open to Western investment. Even when tension has occurred in the past, such as when the Americans bombed a Chinese embassy in Kosovo, the

\textsuperscript{484} Ibid.

close economic ties have been a stabilizing force in China’s relationship to the west.\textsuperscript{486} Thus China’s ascent could be peaceful if both sides are willing to continue compromising on economic and security matters.

On the other hand, some in the security establishment believe it is only a matter of time before China becomes more assertive over Taiwan and scarce oil and other natural resources.\textsuperscript{487} They argue a rising China will displace the contemporary balance of power and instigate conflict with the United States. With recent historical examples such as the ascent of Germany leading to the two world wars or the Soviet Union’s 50 year Cold War, they argue Washington should take precautions over a rapidly developing China. These policy-makers advocate heightened preparedness with increased military spending and stronger ties to allies in South East Asia.\textsuperscript{488} Washington should not be reluctant to take a hard line to defend its economic and security interests when they will be, inevitably, threatened by Beijing.

This has led to a contradiction between those in the security establishment and those in the economic and business community. China is both a potential threat and a potential stabilizing force – the interpenetration of opposites. As discussed earlier, China and the United States are highly interdependent with the Chinese holding trillions in US debt while relying upon the Americans to consume Chinese-made products. Many realists often point out Europe was highly integrated prior to the First World War, particularly Britain and Germany, but this did not

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\textsuperscript{487} Christensen, 81.
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\textsuperscript{488} Friedberg, 8.
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prevent a catastrophic conflict from engulfing the continent.\textsuperscript{489} This ignores the fact many European leaders believed the war would be short and inexpensive, and not a long, protracted, violent affair that left millions dead and four empires in ruins.\textsuperscript{490} The war also displaced international economic integration for the next 50 years – not exactly a predictable outcome from a conflict that was supposed to be over by the Christmas of 1914. Few, if any, scholars or policy-makers are under the illusion that a conflict between China and the America would be cheap in terms of materiel or human lives or easily resolvable once started. Both Beijing and Washington recognize their mutual economic reliance and the advent of nuclear weapons, perhaps a key reason the Cold War did not cascade into a full out war, raises the costs of great power conflict even further. Yet, many in Washington still view China as threat to American interests.

The rise of China could lead to tension with the United States, but conflict between these two countries would have dire economic consequences for the global economy. The central debate Harvey and Arrighi address in their discussion on imperialism is the reaction of the United States to an emerging China. For Harvey, it has led the Americans to invade Iraq as a precautionary measure to attain its resources. It is possible that domestic or international factors could lead Beijing to be more aggressive on issues such as Taiwan leading to a direct confrontation with the United States, but if the economic consequences of 9/11 or the financial crisis are any indication, financial markets will limit the policies of these countries. Both countries are reliant upon the free mobility of goods and finance to maintain economic growth and prosperity. In China’s case, the regime depends on job creation for stability. Capital


\textsuperscript{490} Ibid.
imperialism in this case has conditioned the two countries to, at least thus far, peacefully co-exist with each other, with neither country willing to destabilize the global economy. Financial markets have the capacity to punish countries for acting contrary to the demands of capital and the United States and China are no exception.

**Conclusion and Summary**

This chapter examined the tension between the processes of capital imperialism and the management of crisis in the United States, the EU and China. The overall goal of this chapter has been to argue that the process of capital imperialism in its variety of forms has conditioned the responses and politics of governments. It has done so through the use of DHM, which emphasized the totality of the world economic system, context, and contradiction. When George W. Bush became president it appeared that economic and political power had become harmonized – the demands of the financial system aligned with that of the American government. Yet the two were in many ways prone to contradiction. The departure between capital imperialism and the US government started with the post-9/11 wars in Afghanistan and Iraq, and came into conflict with the 2008 financial crisis. In many ways the presidency of Barack Obama is a continuation of the tensions between geopolitical and capital imperialism that started with George W. Bush. Bush did not hesitate to invade Afghanistan and Iraq – the latter using questionable evidence and without the consent of the international community. It was only later in the administration, after the two wars began to sour, that the Bush administration recognized it needed less ambitious foreign policy goals. Obama continues with this trend, withdrawing the United States military from battle operations and placing a pull-out timeline for
troops in Afghanistan. His administration’s efforts have been concentrated on domestic issues, focusing on the financial crisis, healthcare reform and stimulating the economy. On this front, Obama has met with mixed results. As of 2011, the American economy has yet to fully recover and unemployment remains high.

Obama’s policies have met with a libertarian populist uprising, the Tea Party, resulting in the Democratic Party losing control of the House of Representatives to the Republicans in the 2010 mid-term elections. The Republicans will likely prevent any future large spending initiatives, thereby constraining Obama’s domestic political agenda. Capital imperialism has conditioned and, at times, punished the United States for its government policy choices. Financial markets reacted against the failure of Lehman Brothers and the initial TARP package leading to the near collapse of the international credit market. Even after the worst of the crisis abated, pressure from the financial system led to weak reform on the American banking system. The domestic politics of the United States almost led to yet another global crisis in the summer of 2011. The inability of the Republicans and Democrats to reach a deal of the debt ceiling almost led to a global economic catastrophe. As the post-crisis period has shown, capital imperialism has made the United States extremely vulnerable to financial markets. However, despite some weaknesses with the United States, it remains central to the international capitalist system. The US dollar is the world’s reserve currency and America holds a key position in numerous international institutions such as NATO, the IMF, and the UN. America is a major importer of goods from China and the European Union. As the 2008 credit crisis highlighted, the United States economy is inexorably connected to the rest of the globe. But as the financial crisis and the recession have indicated, centrality should not be conflated with control – the duality of
capital imperialism provides America unique capabilities in the financial system, but the same vulnerabilities as any other country.

The power of capital imperialism is perhaps most evident in the Eurozone, but this too is influenced by domestic factors. The EU has predominantly been an elite-led project that tried to balance the economic interests of numerous disparate countries. When times were good, the project had few problems: more productive countries, such as Germany and France, could sell goods to Southern European countries with few barriers, and in turn Southern European countries could borrow at low interest rates. When the financial crisis raised the costs of borrowing and hit the entire region with a massive recession the system started to break down. A sovereign debt crisis hit the PIIGS requiring periodic bailouts from the IMF and Northern European countries. As the demand for more and larger loans has increased, the popular support from wealthier countries for these bailouts has dwindled. The Americans have outright refused to contribute further funds to alleviate the crisis, partially due to their own debt problems and political deadlock. The Europeans are left with few easy solutions to their economic difficulties: if they let the PIIGS default it could create a crisis that could dwarf the credit crunch of 2008, yet continued bailouts and austerity measures remain politically unpopular. The proposed fiscal union is a method to meet the demands of the financial system at the expense of democracy. The goal is to restrict the power of national governments in order to meet the demands of investors and financial markets - the culmination of capital imperialism.

If any one country has benefited from the Great Recession it has been China, but even with its high economic growth rates there are signs domestic problems and capital imperialism will hamper its development. China must contend with several demographic issues that are common throughout developing economies. The gender ratio is extremely skewed against
women, leading to a generation of men who cannot find partners – an issue viewed as a significant determinant of the Arab Spring revolutions. Furthermore, the economic gains of China have benefited a select group of middle class, industrial elites and party sycophants while billions of working class and rural Chinese remain poor. Also, though China has developed a wealthy middle and upper class, it still relies upon a viable export market as part of its development strategy. This is one of the reasons the Chinese are willing to finance America’s burgeoning debt, for fear a collapse in American consumption will harm Chinese job creation. Nor has the Great Recession left the Chinese economy unscathed. The stimulus package introduced by Beijing along with low interest rates have led to a housing market bubble – its collapse could abruptly halt China’s economic growth. The partial ownership and direction of its banking system have prevented major bank failures but they have also left the Chinese economy open to corruption by politically motivated technocrats. China may not have avoided the consequences of the global recession, but merely delayed it.
Chapter 7:

Imperialisms in the 21st Century

*History is a nightmare from which I am trying to awake.* - James Joyce

*Hegel remarks somewhere that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce.* Karl Marx.

The purpose of this dissertation has been to reconceptualize imperialism through the method of dialectical historical materialism. I have outlined the recent historical origins of three interrelated contemporary processes: geopolitical, geocapital and capital imperialism. Following Marx’s method, I have examined how the imperialisms occur in the contemporary period. From there, I discussed these processes at a systemic level, and how they interrelate with their different historical and cultural contexts. I have placed most of the emphasis on the United States as the dominant capitalist country since the Second World War, though at times I have examined other regions such as Europe and East Asia and other financial and international institutions. Throughout chapters 4 and 5, I have intervened on theories of imperialism from the critical literature in order to elaborate on my analysis. Some of their ideas have strengthened my analysis, while at other times I used historical materialism to criticize some of the theoretical limitations of the literature. By doing so, there are several insights I can offer on the method of historical materialism, mainstream and critical theories of imperialism, and how the processes of imperialism can be challenged in the 21st century.

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Dialectical Historical Materialism and Imperialism

This thesis provided a distinct analysis of imperialism through the use of DHM that offers insight to both the mainstream and critical literature. One of the reasons this differs from positivist accounts is that historical materialism seeks to uncover the determinants of a process rather than causes. This recognizes imperialism is a multifaceted, contradictory, and complex expansionary force that varies depending on time and place. Throughout this dissertation, I have sought to examine the historical origins of imperialism and how it has been transformed by the ideational, political, economic and technological changes in the 20th and early 21st century. This is why I have avoided a discussion of empire. The mainstream literature is concerned with the American empire – whether it is a stabilizing force or if it promotes liberty and democracy. This is due to the historical involvement of the United States government on American academic institutions. The American government has been aware of the possible subversive nature of academic institutions and has sought to co-opt them to the project of empire. Thus realists in mainstream literature tend to use methods that can readily be applied to policy. They argue the United States as the unipolar power acts as a global police force, punishing rogue states when necessary. Similarly, the liberals in IR serve as the ideological basis for the American empire: America is a force for good in the world and spreads democracy, freedom and free markets. Echoing the empires of the past, liberals ignore the violence associated with empire in the name of a civilizing mission.

However, this project has been more concerned with the processes and expansion of imperialism than in its reified form. My analysis started shortly after the First World War as a
point of departure, which coincided with the decline of the United Kingdom as the dominant state in the capitalist system and the ascent of the United States. I have discussed how the Bretton Woods system emerged due to the crisis of the Great Depression, which then collapsed in the 1970s with the rise of neoliberalism. According to DHM, an analysis must examine the system level - the entire global capitalist system. America remains important to the promotion and regulation of the system, but more recently it too has been conditioned by international financial markets. Capitalism is itself a general and a specific process. Particularly since the deregulation of finance in the 1980s, it compels states to compete against each other for scarce resources, but also must find some place to be part of an accumulation cycle. Although financial markets are global in their breadth and scope, they are by no means abstracted from the geographical location of an economy. When it does find a location inevitably it interrelates with a region’s history, culture and politics.

Through the use of DHM, there are several conclusions that can be drawn about critical theories of imperialism. First, there is a prioritization throughout the literature between dialectics, history, and materialism. Most critical theories place an emphasis on capitalism and production as the main determinant for the actions of the United States government. This interpretation leads Panitch and Gindin and Harvey to assume that the United States went to war in Iraq predominantly for economic reasons. DHM places a methodological importance on capitalism, but, as stated earlier, it focuses on relations rather than final causes. So capitalism is significant, but not the only determinant of the process of imperialism. The approach I have undertaken is to try to understand the role of production as one of many factors. If anything, the operationalization of Marx’s method throughout this thesis has prioritized history, then dialectics, then materialism: I have constructed a historical narrative that examined a variety of
phenomena that determine the processes of imperialism. Capitalism plays a central, but not the only, part of American imperialism.

Along with their contributions to historical materialism, the authors of critical theories of imperialism must also be contextualized in their own specific history. Hardt and Negri’s Empire reflects circumstances of the late 1990s and early 2000s when it appeared that a supranational authority conditioned global economic and political actors. This was the post-Cold War period of American-style globalization where the main political fault line seemed to be between the United States, transnational corporations, and the WTO on the one hand, and the global multitude on the other. For Panitch and Gindin and Harvey, their theories are influenced by the Bush Administration, particularly its decision to invade Iraq. This type of imperialism places the United States as the main imperial agent for global capitalism. For Harvey, the reasoning behind the occupation of Iraq was part of a longer-term strategy by neoconservatives to prolong America’s dominance. Similarly, Giovanni Arrighi’s analysis reflects his historical research in patterns of production dating back to the origins of global capitalism. He hypothesizes that the American “long century” is coming to an end with the ascent of China. Though I am sympathetic to Arrighi’s sophisticated historical research, I take a far more sceptical approach to American declinism, especially since China’s robust growth is built on rather tenuous economic and political foundations.

Of course, the same is true of my analysis of imperialism. This dissertation has been shaped by recent political and economic events, particularly since the 2008 global financial crisis. Through the conceptual distinction between geopolitical, geocapital, and capital imperialism as part of imperialism, I have tried to understand how the financialization of the global economic system has taken such a destructive turn. Since the crisis, the most powerful
countries and institutions, ranging from the United States, China, the EU, have had to contend with a turbulent financial system. Although I have been critical of the literature on theories of imperialism, they have made a contribution to this analysis. I have borrowed many methodological assumptions about dialectics from Hardt and Negri. Panitch and Gindin offer an in depth understanding of global financial institutions that is missing from other theories of imperialism. Moreover, I agree with Harvey and Gowan’s recognition that inter-state competition has not abated since the end of the Cold War, but remains a central factor in the international system. And with Arrighi, I share the understanding that financialization has been a major development in capitalism, but it is not necessarily a harbinger of America’s decline. I believe my examination of the recent history of geopolitical, geocapital and capital imperialism has been strengthened by the contributions of these scholars.

The Forces of Imperialisms

The distinguishing feature of the global economy since the crisis has been the sheer power of the financial system to weaken even the largest economies. Rather than the demands of global finance dictating the policies of the Americans and Europeans, it is remarkable how unresponsive governments have been to the recession. This is mainly due to institutional and cultural factors. With their commitment to the Euro, the Northern Europeans have found it difficult and unpopular to continue to finance the debt of Southern Europe. This uncertainty has only further worsened the situation and has made possible solutions much more difficult. For the United States, the crisis has been exacerbated through inaction and government infighting. Even though Washington has a well-established history of bowing to the demands of the financial
system, it too is constrained by domestic political and institutional factors. The polarization of
the American electorate, along with the divided powers of the federal government, has led to an
inadequate response to the crisis and the recession. America has only avoided facing a debt crisis
similar to the Europeans due its legacy as the hegemon of the international financial system and
the reliance of the rest of the global economy on the American consumer market.

Although the United States remains by most accounts the wealthiest dominant country in
the world, its future in the system is by no means assured. The conflict of imperialisms may
result in Washington ending its primacy through its own action or inaction. The misadventures in
Afghanistan and Iraq have proved costly. Another expensive foreign policy campaign against
potential “rogue states” like Iran or North Korea could bolster America’s competitors into taking
a more assertive response and further undermine the United States’ fragile economy. However, if
the events of the past few years are an indication of what is to come, it may be the internal
problems of the American political system that undermine it global position rather than imperial
overreach alone. The United States has a privileged position in the international financial system,
but through its own actions it may jeopardize its hegemony. For example, if the US decided to
allow major investment firms to collapse, the credit markets to freeze, or to default on its debt as
it almost did in the summer of 2011, this may lead to irreparable damage to both the American
and global economy. The cases of Southern Europe show the power of financial markets to
undermine a country’s economy. Although unlikely in the short-term, it is not unthinkable a
conflict between capital imperialism and Washington could occur as it did in September 2008.

For most of the 20th century, the United States has been central to expansion of
capitalism, but it is not essential to its continuance. As Britain was once a hegemonic power that
was replaced by the United States, it is conceivable an alternative country could overtake
America as the main state within capitalism. As discussed in chapter 6 though, at this time, major contenders have a long way to go before they replace the United States. However, if current pathologies continue, it is more plausible regional actors will progressively replace America. In Europe, Germany has taken a leadership role in dealing with the PIIGS sovereign debt crisis through the ECB and the EFSF. If it were just 10 years ago, the United States would almost certainly have played a more dominant role, as it did during the peso and East Asia crisis. The legacy of the Bush administration has left the American government with fewer economic resources and less political influence worldwide. Whether America’s withdrawal from European affairs is due to its economic problems at home and not a protracted trend in global politics remains to be seen.

Regardless of the dominant country in the international system, a major systemic source of conflict in the 21st century will be capital imperialism. In recent years, financial markets have led to crisis in the American and European economies. And while China seems to have been left relatively unscathed from the recession, there are warning signs problems are on the horizon. Few countries can isolate themselves from the international financial system. This is due to the breadth and scope of capital imperialism. Critics often suggest that too-big-to-fail firms caused the financial crisis, but as I have shown, the dominance of financial firms and the protection of investors is, in fact, an effect of a multitude of historical processes. Though countries may create institutional barriers against rapid fluctuations, forty years of liberalizing financial markets along with innovations in communication and transportation technology have fundamentally changed the global economy. People can potentially invest in any market anywhere in the world where it is profitable. In response, states have instituted policies to attract investment, effectively making finance a transnational phenomenon. The sheer size, breadth and complexity of the modern
forms of fictitious capital defy the understanding and control of both governments and many in
the financial industry. As experienced during the crisis of 2008, the collapse of one American
investment firm nearly brought down the entire global economic system. Since then almost every
major government has enacted policies to mitigate the effects of the recession with varying
degrees of success.

If these forces of imperialism are indeed problematic, then a topic which mirrors this
discussion is how resistance is possible. Although this thesis has avoided a broad evaluation of
this issue, these are some tentative suggestions. We must try to understand the process of
imperialism at work, whether it is geopolitical, geocapital, or capital. These are not always easy
to differentiate since an event often has multiple forces at work. But from there, a plan for
resistance can be formulated. Geopolitical imperialism is often determined by the geopolitical
distribution of power in the international system and by domestic factors. The fall of communism
brought a new unipolar system with the United States as the lone superpower. It no longer had a
competitive military power to prevent its foreign policy excesses. Under President Clinton, this
led America to expand the role of markets throughout the global economy. When George W.
Bush came to power, American geopolitical imperialism changed due to the terrorist attacks of
September 11th 2001, with the principles of pre-emptive strike and democracy promotion through
force.

Recent history suggests that this form of imperialism can be combatted in two ways: by
fostering international geopolitical opposition to the United States government, or by domestic
pressure on the American government. The inter-state opposition was unsuccessful in halting
America’s invasion of Iraq, but due to the weakness of the United States after the financial crisis
and the election of Obama, it may yet prove a method to moderate US foreign policy.
Furthermore, some presidential administrations are more amenable to building international consensus than others. George HW Bush and Bill Clinton were far more willing to work through international institutions than George W Bush in the aftermath of September 11th. So although pressure from America’s international commitments create a great deal of continuity between administrations, as I have shown there are differences between the foreign policies of Republican and Democratic presidents. Moreover, domestic politics matter. The Tea Party almost led House Republicans to default on America’s debt commitment despite pressure from both domestic and international finance. There are of course limitations on how effectively domestic political pressure can challenge elites in the United States, but it is not entirely an unsuccessful method to shape American foreign and domestic policy. Despite the dominance of finance and corporations, the American government is at least somewhat responsive to its citizens if they are organized.

For geocapital and capital imperialism resistance is far more complicated. Indeed as discussed in chapter 6 there has been a blurring between corporations and financial institutions, with many companies that used to produce goods now relying on financing for profitability. Moreover, many corporations are no longer bound to a single state, but have global production networks, further limiting the regulatory capacity of states. In the 20th century the state has been a useful apparatus to spread capitalism and punish opposition to finance capital and corporations. In the post-WWII period states even played an important role in regulating finance and establishing a stable economic system with the United States as the central actor. While it is likely impossible to return to the period of embedded liberalism, international agreements can have a role in mitigating the power of capital imperialism should there ever be the political will to do so. There was some discussion from major countries in the immediate post-2008 crisis to
forge a new international economic system, but this consensus quickly dissolved. There are simply too many incentives and powerful interests for countries, particularly the major financial centers of the US and the UK, not to enact meaningful regulation on financial markets.

Individual corporations or financial institutions can be targeted and CEOs can, but more often do not, go to jail, but this ignores the fact that the problem is systemic.

Financial firms and corporations have had 40 years to amass power and political influence. The role unregulated finance plays in the modern global economy must start to be contested. One of the few positive outcomes of the financial crisis and the recession is that it has brought attention to the social costs of financialization. In the 1980s and 1990s, economic globalization was viewed as a positive and inevitable force that would bring prosperity to everyone. With the possible exception of a few sycophants in the financial industry, media, and in academia, hardly anyone believes this myth anymore. In Europe, finance has ruined most of the economies and governments are left trying to stop the haemorrhaging. There have been periodic bailouts with the hope that the crisis will abate. Europeans must now live with harsh austerity measures and reduced social spending. Even with these measures, there is a real possibility the Eurozone will collapse due to the pressure of financial markets, which could have unforeseen consequences on the global economy. In the United States, ironically both the Tea Party and the Occupy movements are angered by the nexus between finance and the government – albeit with a different emphasis on the culprit. Despite the rhetoric from Obama, the American government has been unable to meaningfully regulate international finance.

This does not, however, suggest that rethinking the role of finance capital is impossible; it requires political will, international consensus from major stakeholders, and people willing to risk producing tangible goods instead of finding easy profits through finance. After the Great
Depression and the Second World War, there was a broad-based agreement from countries, capital and labour to limit the potentially destructive power of finance. As unlikely as this appears in a modern context, the architecture for some democratic oversights exists. New York and London are centres of global finance, and are thus amenable to regulation should there be new comprehensive laws introduced and enforced. Heads of governments were at one point after the crisis considering new guidelines for financial firms, including a bank tax, and greater government oversight over investment banks. However, before too long finance capital and domestic political and economic considerations took precedent over meaningful reform of the system. In an unfortunate turn of events, attention has shifted from the financial industry to sovereign debt as the main economic problem in the global system.

However, reforming the financial system may be a start, but it will never be enough to prevent another crisis. As this thesis has shown, capital requires a barrier as an accumulation strategy, but will inevitably overcome that barrier. Whatever regulation or policy governments institute will only be a temporary method to manage the crisis. The problem lies at the heart of capitalism - it will always find a way to break down any limitation. This can be violent through the use of the state, or it can appear as an organic process that is natural and inevitable. The fundamentals of capitalism must be called into question: the rights of investors, private property ownership, and the totalizing mentality of market relations. Only by combating the orthodoxy of the process of capitalism can imperialism in its variety of forms begin to be challenged.
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