INTRODUCTION:

WHY GEOPOLITICAL ECONOMY?

The owl of Minerva, Hegel once remarked, takes wing at dusk. Knowledge results from reflection after the tumult of the day. This gloomy view may be too sweeping, but it certainly applies to the multipolar world order. Influential figures began hailing it in the wake of the 2008 financial crisis and the Great Recession. The American president of the World Bank spoke of ‘a new, fast-evolving multi-polar world economy’ (World Bank, 2010). Veteran international financier George Soros predicted that ‘the current financial crisis is less likely to cause a global recession than a radical realignment of the global economy, with a relative decline of the US and the rise of China and other countries in the developing world’ (2008). However, the multipolar world order was much longer in the making. Developments of this magnitude simply don’t happen overnight even in a crisis (though, as we shall see, emerging multipolarity was a decisive factor in causing it), and this has important implications for prevailing understandings of the capitalist world order.

Recent accounts stressed its economic unity: globalization conceived a world unified by markets alone while empire proposed one unified by the world’s most powerful – ‘hegemonic’ or ‘imperial’ (the terms tended to be used interchangeably) – state. They also assumed either that nation-states were not relevant to explaining the world order (globalization), or that only one, the United States, was (empire). We can call these views cosmopolitan, a term the Oxford English Dictionary defines as ‘not restricted to any one country or its inhabitants’ and ‘free from national limitations or attachments’. Neither can explain the multipolar world which is the result of national states playing large and openly acknowledged economic roles to boost growth in the emerging economies, pre-eminently China, fracturing the world economy and undermining the United
States’s importance in it. This development suggests that the cosmopolitan understandings are not only obsolete, they were never accurate.

Moreover, it was not just in emerging economies that states played important economic roles. The influential Financial Times proclaimed that ‘The State ... is back’ (Wolf, 2009), scrambling to respond to the crises with bailouts and fiscal stimuli after three decades when anti-state and pro-market ideologies – neoliberalism as well as globalization and empire – dominated. In reality, these ideologies notwithstanding, the state had never gone away and the world’s economies retained their national distinctiveness, as the Eurozone crisis underlines so starkly. Even in the Anglo-American heartlands of these ideologies, states continued to play important economic roles, only more one-sidedly in favour of the wealthy.

As the acknowledgement of multipolarity upsets more and more received wisdom, Geopolitical Economy seeks to lay the foundation of more accurate understandings by advancing three major arguments.

The first and most fundamental argument insists on the materiality of nations. It sees the capitalist world order and its historical evolution as the product of the interaction – conflicting, competing or cooperative – of multiple states. This interaction is governed by the economic role each must play in managing capitalism and its crisis tendencies – chiefly its constrained demand and consequent surfeit of capital – which only grow sharper as capitalism matures. This economic role involves both domestic economic action and international engagement. The geopolitical economy of the capitalist world order this argument yields draws on the intellectual resources of classical political economy up to and including Marx and Engels, the classical theories of imperialism, later critiques – like those of John Maynard Keynes and Karl Polanyi – of neoclassical economics, the developmental state literature and economic history, such as that of Robert Brenner. In it, states’ international interaction is seen in terms of the dialectic that the Bolsheviks termed uneven and combined development (UCD). On the one hand, dominant states seek to preserve existing uneven configurations of capitalist development which favour them, including through formal and informal imperialism. On the other, contender states (a term gratefully borrowed from Kees van der Pijl, 2006b) accelerate capitalist, and in some cases such as the USSR, communist, development to contest imperial projects of dominant states. Such hot-house development is called combined development because it
combines or compresses many stages into shorter and more intense bursts. Despite the economic, geopolitical, military and ideological power marshalled by dominant states, so far the latter tendency has dominated in UCD – sometimes against great odds and with apparently interminable delays. This politico-economic dialectic, and not the market or capitalism conceived in exclusively economic terms, is responsible for productive capacity spreading ever more widely around the world. By the early twenty-first century it had created the multipolar world in which there were now too many economies that were too substantial for any one of them to even hope to dominate the rest.

This last point is critical: the present crisis marks the end a long phase in the history of the capitalist world order, and of imperialism, the phase characterized by the actual or attempted dominance of single powers. In this phase, cosmopolitan views of the capitalist world order as a single unified world economy in which most states played no economic role served critical ideological functions. They dissimulated the economic roles of the imperial states or disguised them as benevolently ‘hegemonic’, and they discouraged and forestalled, where possible, those of contender states. Nineteenth-century free trade, under which UK imperial ambitions were advanced, was the first of a succession of such ideologies. It was followed by twentieth-century hegemony stability theory (HST) and, more recently, the much shorter-lived globalization and empire, all of which articulated US attempts at world dominance. Like the imperial projects they articulated, these ideologies were never uncontested. This book builds on the dissenting traditions listed above.

The second argument is that the world dominance of the first industrial capitalist country, the United Kingdom, was inevitable as well as unrepeatable. The further unfolding of UCD, in which the combined development of contender states undermined UK dominance, also ensured that such dominance was no longer possible. US attempts to emulate it, beginning in the early twentieth century, had to be scaled back: eschewing territorial empire the United States confined itself to making the dollar the world’s currency and New York its financial centre. Even in this modest form, the US imperial enterprise would fail. Thus, the widespread idea that the United States was (or is) hegemonic is simply false. What is true is that the United States engineered a succession of unstable arrangements through which it pursued its imperial mimesis. The tremendously harmful military and economic actions it entailed have been justly
and unflaggingly exposed by generations of critical and progressive writers. This book makes arguments that these US actions were the price of the benefits of US ‘hegemony’ ring even more hollow than they ever did.

Indeed, ideas about US hegemony – that cluster of theories usually grouped together as HST – were rooted in little more than the United States’s mimetic imperial aspirations. HST emerged in the 1970s after the most promising attempt to realize these aspirations – installing a gold-backed dollar as the world’s currency at Bretton Woods – had already failed. All versions of HST retrospectively posited a postwar US hegemony clinched by the dollar’s world role, supposedly based on the overwhelming economic and financial dominance the United States achieved after the Second World War. However, that dominance was wrought by war and would prove temporary. Internationally, the United States was just one, albeit the largest, among a growing number of states pursuing combined development more powerfully than ever. Domestically, the US economy was a national, not an imperial economy. In these circumstances even the scaled-down US attempts to emulate the United Kingdom’s nineteenth-century dominance could only give this sort of single-power dominance a strange afterlife.

Finally, this book tracks the crisis-ridden career of the dollar as the world’s money to demonstrate its third major argument: that globalization of the 1990s and empire of the 2000s were ideologies of the two most recent US attempts to maintain that role, not genuine theories. The dollar’s world role was problematic from the start, and its mounting troubles led to the closing of the gold window in 1971. Thereafter the dollar continued to be the world’s currency, and to plague it with financial troubles. As the dollar lurched from one unstable basis to another, its ability (not to mention suitability) to continue in this role was regularly cast into doubt. As attempts to sustain the dollar’s world role, globalization and empire rested on the vast increases in dollar-denominated world financial flows. They were the main element of what came to be known as financialization. It enabled capital to flow into the United States. It flowed into the US stock market under globalization as Federal Reserve chairman Alan Greenspan fed illusions about the US’s ‘new economy’ and ‘hidden productivity miracle’. And it flowed into the swelling market for US mortgage-backed securities as Greenspan and his successor Ben Bernanke fed new illusions about the trajectory of house prices and the justified capital flows into the United States under Bush Jr’s empire. The financial crisis in
which the latter culminated leaves the US administration no viable options to stabilize the dollar’s world money role. Arrangements for displacing the dollar in international payments are being proposed and even made – from an expanded role for special drawing rights (SDRs) through barter and swap arrangements for trade financing to regional institutions for reserve pooling. While it is still difficult to tell exactly how long the dollar’s already diminished role will linger, and it has certainly been prolonged by the crisis in the Eurozone, its fate is now governed by forces its makers cannot control.

As Figure 1.1 shows, these three arguments of descending generality are placed one inside the other, like Russian *matryoshka* dolls. In the rest of this Introduction I trace my path to geopolitical economy and then discuss why it is politically necessary at the current conjuncture and end with a plan of the book that outlines
how its three arguments proceed and intertwine through the following chapters.

GETTING TO GEOPOLITICAL ECONOMY

Writing this book was a long intellectual journey. Only towards its end did the expression ‘geopolitical economy’ suggest itself as an apt description of my approach. In doing so it gave a measure of the length of that journey and marked the intellectual distance it put between the final product and five bodies of thought it emerged from.

During my Indian schooldays, textbooks by some of the country’s foremost critical historians and economists introduced me to progressive anti-imperialist/nationalist perspectives on India’s economic problems and prospects. At graduate school in Canada, a historical and materialist approach to politics and comparative political economy enabled me to understand national economies as historically distinct configurations of capital, labour and pre-capitalist classes. On these configurations rested states which, in turn, directed and regulated national economies more or less effectively through distinct institutions and practices, as capitalism developed in one country after another, first in Europe and then beyond. It is easy for forget how mainstream such a view was well into the 1980s. That was when the assaults of that succession of anti-state, free market ideologies, neoliberalism, globalization and empire, swept almost all before them. I remained among the exceptions. My early work on neoliberalism swam against the flow of most writing, even writing critical of neoliberalism, to emphasize its intellectual limitations and the political difficulties in the way of its implementation (Desai, 1994b). I noted with satisfaction that when neoliberal policy failed to deliver and neoliberal ideology to convince, admissions of the state’s necessary economic role began to issue from high places such as the World Bank (1990).

However, rather than dying a natural death, pro-market, anti-state thinking was rescued by globalization in the late 1990s, which argued that states were ineffectual in a global economy. In the 2000s it would pass the torch to ‘empire’, which asserted that states were insignificant forces against the imperial or hegemonic power of one of them. Many see the last 30 years as a single neoliberal period with three distinct ideologies. However, the latter two were critically different from the first. Neoliberalism simply sought to provide a better prescription for national economic growth by blaming prevailing statist policies for the slow growth of the 1970s. It was
part of what Hobsbawn (1994) called the ‘short twentieth century’ (from 1914 to 1989), during which the parameters of economic policy remained national. Globalization and empire were, on the other hand, cosmopolitan ideologies. Although, of course, they entailed prescriptions for domestic economic policy, they posed as accounts of world order – indeed, theories of it.

My background and intellectual evolution had inoculated me against globalization’s cosmopolitan charms. Posing as a social scientific theory, it had few advocates (but see Ohmae, 1990). It had, instead, plenty of ‘realists’: politicians like Blair or Clinton and intellectuals like Giddens or Stiglitz argued that globalization was real, powerful and unstoppable. They made globalization as mainstream an assessment of the dynamics of the world order as any. The anti-globalization movement, paradoxically, only added credibility to their arguments by accepting globalization’s reality and seeking only to change its form. My views were aligned with the determined band of sceptics (pre-eminently Hirst, Thompson and Bromley, 1996/2009; Wade, 1996b; Weiss, 1998) who meticulously marshalled facts, arguments and statistics to show that every claim made about globalization – on growth, trade, investment, finance, migration, technology, inequality or poverty, and pre-eminently about the irrelevance of the state – was tenuous.

That would have been the end of matter had globalization really been a social-scientific theory amenable to refutation. Instead, the sceptical critique led leading writers on globalization to move it onto new ‘transformationalist’ terrain (Held et al., 1999). Here, globalization’s claims were made radically ambiguous: globalization was not ‘the’ but only ‘a’ ‘central driving force in the world’ which was ‘closely associated with, although by no means the sole cause of, a transformation or reconstitution of the powers of the modern nation-state’ (Held et al., 1999: 436). It was, moreover, ‘an essentially contingent historical process replete with contradictions’ whose protagonists made ‘no claims about [its] future trajectory’ and called instead for ‘dynamic and open-ended’ analysis. Globalization was ‘inscribed with contradictions’ and ‘significantly shaped by conjunctural factors’. But, for all that, it was ‘an idea whose time has come’ (Held et al., 1999: 7).

On transformationalist terrain, discourse about globalization could expand without constraints of evidence or logic, and did. As one rare perceptive analyst pointed out, globalization had become at once the *explanandum* and the *explanans*, at once that which required explanation and the explanation itself (Rosenberg, 2000).
Rather than intellectual validity or consistency, the sheer volume of writing that hordes of academics, journalists, policy-wonks and politicians now debating its multiplying minutiae generated on the subject undergirded the diffuse conviction that settled over public discourse in the late 1990s that something called globalization was somehow real. It was amid this stalemate between the validity of the sceptical arguments and the volubility of transformationalist discourse that I realized that the sceptics’ powerful case begged an important question: if globalization was not what it was supposed to be, what was it? What occasioned the discourse and gave it strength?

That question set me on the path that led to this book. The late Peter Gowan’s *The Global Gamble* (1999a) and Michael Hudson’s much earlier work *Super Imperialism* (1972) provided a solid start. In their agential perspective, the constitution and evolution of the world order was the vectoral sum of the actions of powerful states, pre-eminently the United States. They were also dialectical accounts: even the most powerful states could fail to achieve their objects or be prevented from doing so by other states, despite their lesser power. In identifying globalization as a US government, specifically a Clinton government, strategy – ‘Washington’s Faustian bid for world dominance’ as his book’s subtitle had it – Gowan was soon followed by others. On leaving office Clinton was hailed as the ‘globalization president’ (*Foreign Policy in Focus*, 2000) and his successor’s ‘imperial’ presidency led many to contrast the two projects. Giovanni Arrighi, for one, wondered about ‘The strange death of the globalization project’:

For all its free-market rhetoric, the Bush Administration was never as enthusiastic as the Clinton Administration about the process of multilateral liberalisation of trade and capital movements that constituted the central institutional aspect of so-called globalization. Indeed, the word ‘globalization’ has rarely, if ever, cropped up in Bush’s speeches. According to a senior presidential aide, the word ‘makes him uncomfortable’. Speaking of the December 2002 tariffs on imported steel, under threat of $2.3 billion in retaliatory sanctions, the aide explained that the White House ‘thinks what went wrong in the 90s is that we forgot to put American interests first. So globalisation sounds like the creation of a lot of rules that may restrict the president’s choices, that dilute American influence.’

(Arrighi, 2005b: 62; see also Bacevich, 2002: 72–3; Mann, 2004: xvi; Johnson, 2004: 255)
These contrasts also negated transformationalist attempts to portray globalization as decades, if not centuries or millennia, old and give it a long scholarly pedigree. In fact, the word ‘globalization’ emerged, and writing on it took off, only in the late 1990s (Therborn, 2001; Fine, 2004). That was the moment when, as Chapter 7 shows, the Clinton Administration began to give the word the distinctive cluster of meanings with which it would dominate public discourse in the late 1990s.

Obituaries of globalization began to appear in the early years of the new century, typically connecting the end of globalization to the events of September 11, 2001 (Ferguson, 2005; Economist, 2001a). Of course by this time so many scholars had invested so much scholarly credibility in the idea of globalization that writing on it could hardly stop overnight. But it definitely levelled off (Fine, 2004), and there was a distinct new mood. Not only was globalization replaced by empire, claims about globalization became even more qualified, circumspect and ambiguous. Martin Wolf, who had long argued that globalization was not only real and desirable but also more or less inevitable turned, in his Why Globalization Works (2004), to making the case that it needed to be given a chance. Globalization had been demoted from unstoppable juggernaut to a delicate plant needing careful nurture.

It was in this context that I set about writing a book about globalization as a US strategy of world dominance. It would fill an important gap in understanding. Hudson’s account had ended in the early 1970s. Gowan’s also came too early, just a little too early: writing in the immediate aftermath of the Asian financial crisis, he identified it as the apogee of globalization. However, as I would discover, by directing capital flows back into the United States, that crisis only set the stage for an even more spectacular climax, the bursting of the dot-com bubble, whose aftermath determined the economic strategies of Bush Jr’s empire. And later writers had just made passing, if to me at least very suggestive, remarks. Moreover, my book was also to set the account of globalization in a systematic theorization of the capitalist world order and its development.

I initially assumed that HST provided that theorization. After all, it focused on the world economy, showing how powerful states – the United Kingdom before 1914 and the United States after 1945 – organized its productive expansion. HST’s highly erudite and avowedly Marxist world systems (WS) version even stretched the succession of ‘hegemonies’ back to seventeenth-century Holland and the sixteenth-century Italian city states. So originally I assumed,
in line with HST, that the United States had been hegemonic in the 1950s and 1960s. However, further investigation of the historical record undermined such assumptions. And that meant that though HST, including its most elaborate WS version, had been erected precisely to understand the US case, it was anomalous. Worse, the very idea of hegemonies turned out to have originated in the long-standing imperial ambitions of the US political classes themselves.

These realizations deepened and broadened my project. The planned ironic account of globalization could no longer be based on HST but had to take it, and its epigone, ‘empire’, on in a fuller account of the evolution of the world order and the evolving positions, practices and ideologies of the United States in it. This was just as well, because I could now round out the account by discussing empire too – the credibility it derived from HST and its dangerously contradictory political economy which took financialization to new heights. Given that the literatures on empire and financialization exist in separate silos, this connection was worth emphasizing. Empire’s advocates, of course, celebrated it and called on the United States to accept its imperial responsibilities (Ferguson, 2004; Maier, 2006; Ignatieff, 2003) while its realists saw it as a grimly settled and stable reality (Panitch and Gindin, 2004). Even its opponents, while they did expose its contradictions and purposes (Bacevich, 2002; Harvey, 2003; Johnson, 2004; Mann, 2003), mostly concentrated on military aspects and on the question of US deficits. While these were not irrelevant (Arrighi, 2005a, 2005b), financialization was, in my view, critical to understanding globalization, empire and the dollar’s world role.

Casting about for a new theoretical framework, I gravitated to UCD. In retrospect, this was fated. UCD had framed the Bolsheviks’ understanding of their historic revolution against capitalism and imperialism. It was connected to the contemporaneous classical theories of imperialism and rooted in Marx and Engels. Moreover, it became part of the further unfolding of UCD in the twentieth century. As the strongest form of combined development, communism, whether of the USSR until the 1990s or the People’s Republic of China today, would support, and generally widen the opportunities for, other states pursing combined development, capitalist as well as communist, in a broader anti-imperialist configuration. UCD and the classical theories of imperialism were the first theories of modern capitalist international relations, not Wilsonian idealism and the ‘realism’ which replaced it, as students of international
relations (IR) are usually taught. Geopolitical economy takes them as its theoretical point of departure.

I encountered UCD as one does a sophisticated piece of machinery unjustly abandoned at the waterside by those who inherited, but did not comprehend, it. It lay buried under layer upon layer of sedimented misinterpretation and partial appreciation that passing intellectual fads and trends had washed upon it over the decades. Only parts that remained in use stuck out in view. There was its understanding of the Russian Revolution, which some deployed to understand the possibilities of communism in the developing world (e.g. Löwy, 1981). And there was the concept of unevenness, which others used to emphasize the inequalities of capitalism (e.g. Smith, 1990). Both neglected the multiplying instances of combined capitalist development to which their age was witness, and by the 1970s it became the province of largely non-Marxist writers on developmental states (e.g. Deyo, 1987; Wade, 1990; Berger and Dore, 1996; Amsden, 1992; Woo-Cumings, 1999). As I pulled UCD out of this mire, its basis in Marx and Engels’s writing was exposed to view. Cleaning it up and overhauling it so it could once again be put to explanatory work on later twentieth-century and early twenty-first-century developments involved fitting it with carefully chosen modern trappings – Keynes, Polanyi, the largely non-Marxist developmental state literature and Robert Brenner’s economic history.

UCD’s restored theoretical machinery assumes not only that states play economic roles in domestic political economy and geopolitical economy to manage their capitalisms’ contradictions, but also that there is a dialectic between unevenness and combined development. The unfolding of UCD has taken the capitalist world order through distinct historical stages. The phase of UK dominance gave way to the intertwined industrial and imperial competition between the United Kingdom and contender states, chiefly the United States, Germany and Japan, which climaxed in the First World War and birthed the Russian Revolution. In the following phase, actually existing communism was added as a mode of combined development to the usual capitalist forms, and its powerful anti-imperial thrust widened the geopolitico-economic space for combined development, whether capitalist or communist. Seeing both communism and national developmental capitalisms as forms of combined development makes it easier to see why so many critical writers insist that both were the targets of the US cold war: it was more an exercise to maintain capitalism’s unevenness than an ideological crusade (Block, 1977: 10; Van der Pijl, 2006a: 14, 30).
The unfolding of UCD is not without effects on the progress of inevitably national class struggles: unevenness tends to empower capitalist and propertied classes particularly in imperial centres, while combined development generally empowers working classes and popular sectors. In the postwar phase of UCD, for instance, Soviet power and prestige not only ensured decolonization and supported combined development in the newly independent states, it facilitated a historic development in the domestic political economies of the advanced industrial powers. The enfranchisement of working classes had already made high unemployment politically intolerable in the early twentieth century, and made states even more involved in economic management. Now, working-class assertion increased wages. Domestic markets widened, providing a timely substitute for the loss of colonial markets. However, once these markets were saturated, the geopolitical economy of the latter twentieth century witnessed the logic of UCD unfolding as a struggle for limited markets which Brenner (1998, 2002, 2006, 2009) reconstructed so vividly.

Moving beyond comparative political economy and forsaking HST for UCD was quickly followed by three other breaks – with international (later global) political economy (IPE), Marxist economics and the emerging Marxist international relations – all for one critical reason: these bodies of thought were all creatures of ‘economics’. Let me explain.

Neoclassical economics has been subject to much criticism, not least in the aftermath of the 2008 crisis. But all such criticism is incomplete if it fails to appreciate that the discipline emerged in the late nineteenth century precisely because Marx and Engels’s intervention made classical political economy an unsuitable source of legitimacy for capitalism. Indeed, it had been far from ideal even before their intervention, and two fictions had been necessary to make it so: Say’s law ruled out gluts in the market, denying the need for colonial markets for excess output, and comparative advantage justified as natural the imperial world division of labour between industrial mother countries and agricultural colonies which emerged out of that need. And just when these were combined in Ricardo’s writings, Marx savaged Say’s law while questioning comparative advantage in less noticed but equally important ways. He also exposed political economy’s contradictions and limitations to turn it into a tool for working classes to justify socialism and anti-imperialism. Now bourgeois thinkers had to devise a brand new way to legitimize capitalism. The result was neoclassical, marginalist
equilibrium economics, which reached back over Marx and Engels to Ricardo, and installed Say’s law and comparative advantage at its core.

Neoclassical economics rested on two critical substitutions: classical political economy’s focus on history, conflict and crises was substituted by equilibrium, and its labour theory of value (as distinct from price) and Marx’s discovery of the source of surplus value were substituted by a theory of prices as constituted by subjective preferences in markets. The first substitution created an ahistorical and static ‘social science’, typically written in simple present tense (political parties do this, inflation does that), in which societies did not change fundamentally, certainly not because they generated crises endogenously. The second substitution focused economics on markets alone, away from production, classes and struggles. Such an economics, separated from other social sciences and privileged in relation to them in a new social-scientific division of labour, no longer required an understanding of politics, law and society. Its capitalism was thus purely economic and economically cosmopolitan for the same reason: states played no economic roles. It was a seamlessly global system whose division into an increasing plurality of states was inconsequential. Such a conception of capitalism might dissimulate capitalism’s injustice and anarchy, but only at the expense of understanding it. This ‘economics’ formed the basis of IPE, Marxist economics and the Marxist international relations that has emerged in recent decades.

IPE pioneers founded the new discipline around 1970 because the separate disciplines of international economics and international politics could not capture the complexity of the mounting international economic difficulties that arose from the travails of the dollar. However, the name could be misleading for anyone who expected the new discipline to reach back to the tradition of classical political economy: this was not possible unless its pioneers were willing to abandon their bourgeois and US-centric (as IPE was and remains) positions and preoccupations. Worse, for all the fanfare about combining international economics with international politics, the higher status of economics within the social-scientific division of labour made IPE more often an exercise in the ‘politics of economics’. The latter’s biases remained unquestioned, producing, for example, laments about how ‘special interests’ compromised axiomatically superior free trade and free market arrangements instead of investigations about the intertwined national and class interests at play in trade. The limitations of economics also ensured,
as we shall see, that the mainstream of IPE became the credulous audience for a succession of discourses of US power, not least HST, globalization and empire and their more specific accompaniments – the international financial intermediation hypothesis (IFIH), the new economy, the productivity miracle, the danger of deflation, the great moderation and the global savings glut – which issued from influential sources as US governments took ever more unlikely and unstable measures to maintain the dollar’s world role.

It might have been expected that Marxism, which had survived the cold war, McCarthyism and other capitalist campaigns against it, at least as a dissenting tradition in the academy if not as a politically relevant force, would contest these discourses. It was, after all, the legatee of classical political economy. But it too failed. Since the early twentieth century more and more Marxists have turned to cultural and philosophical pursuits (Anderson, 1976, 1983), while the small band of those who dealt with Marx’s critique of capitalism and political economy were trained as ‘economists’. They wheeled the Trojan horse of neoclassical economics into the Marxist citadel and sought to fit Marx’s critique of political economy into its methodological framework, despite the fundamental theoretical, methodological and political antagonisms between the two (Clarke, 1991). The resulting ‘Marxist economics’ ended up rejecting value theory (and thus Marx’s account of surplus value) on the basis of alleged inconsistencies and the alleged ‘transformation problem’ (Kliman, 2007; Freeman, Kliman and Wells, 2004; Desai, 2010a). It also embraced neoclassical theory’s purely economic conception of a more or less crisis-free capitalism. Marx’s view that capitalism suffered from paucity of demand and the tendency of the rate of profit to fall (TRPF) was discarded (Freeman, 2010). Such Marxist economists wasted no time on the classical theories of imperialism: states played too great a role in them. No wonder then that the most important resource in reconstructing the geopolitical economy of recent decades has been not the work of a Marxist ‘economist’ but Brenner’s Marxist economic history of postwar capitalism.

Finally, when a specifically Marxist strain of international relations (IR) emerged in the 1990s, so completely was it a creature of the purely economic and cosmopolitan account of capitalism that it began by brandishing that account against the dominant state-focused, realist approach in IR (Rosenberg, 1994, see Desai 2010c for a fuller critique). Later scholars of Marxist IR did attempt to give politics and even UCD greater theoretical space (e.g. Teschke, 2003; Van der Pijl, 2006a; Callinicos, 2009). However, as we shall
see, they either let the economic cosmopolitan conception in through the theoretical back door and/or emphasized capitalism’s unevenness exclusively in an un-dialectical account which left no room for combined development.

While it emerged in engagement with comparative political economy, HST, IPE, Marxist economics and Marxist IR, geopolitical economy lies beyond these five bodies of thought. Unlike comparative political economy, geopolitical economy focuses on the world level. Unlike WS or HST, which one-sidedly privilege dominance, geopolitical economy places contestation at its core. Unlike IPE, geopolitical economy reaches back to classical political economy and thence forward to critics of neoclassical economics to foreground states’ economic roles. Unlike Marxist economics, geopolitical economy recovers Marx and classical Marxism to insist that capitalism is prone to endogenous crises and that imperialism was one way they were managed historically. And unlike the new Marxist IR, geopolitical economy conceives of states playing critical economic roles, both in creating unevenness and in promoting combined development.

The distance I have travelled beyond these bodies of thought does not, however, negate their contribution to my understanding, or that of scholars I frontally criticize in these pages. If anything I appreciate all the more how much, as Marx said of Adam Smith, whom he greatly respected, a scholar’s ‘contradictions are of significance because they contain problems which it is true he [or she] does not solve, but which he [or she] reveals by contradicting himself [or herself]’ (Marx, 1969: 151).

This book is only a beginning. It has faults I already recognize. The foremost is that, ironically for a book challenging the notion of US hegemony, it is embarrassingly US-focused. The contender states whose combined development sealed the fate of US attempts to emulate pre-1914 British world dominance – the proper Hamlets of any full account of capitalism’s geopolitical economy – remain largely in the background, only appearing now and again, like Rosencrantz and Guildenstern, ‘to swell a progress, start a scene or two’ in T. S. Eliot’s memorable line. The sheer amount of misunderstanding about the US world role which the book must address means that the fuller parts they deserve will have to await other works building on the ground cleared by Geopolitical Economy. Here these numerous cases of combined development take guises and appear at cues that are, I trust, uncontroversial and minimal. Another fault is a greater degree of self-citation than is normally necessary. It is
another indication of the length and difficulty of the intellectual journey that ended in this book, in that I found myself writing articles on particularly knotty issues which, while necessary for the book’s further progress, were not strictly part of it.

WHY GEOPOLITICAL ECONOMY MATTERS POLITICALLY

Crises teasingly hold out the possibility of dramatic reversals only to be followed by surreal continuity as the old order cadaverously fights back. So far in the current crisis military fight-back appears to be failing. Multipolarity and the shift in the world’s centre of gravity to the emerging economies opened the way for the toppling of US-supported dictators in Egypt and Tunisia. Though Western intervention in Libya could not be prevented, it was stalled in Syria. However, there were more worrying signs of continuity in political economy and geopolitical economy. Announcements of the return of the state and of the ‘Master’, Keynes, which came with initial flurry of bailouts and stimuli were followed by austerity, signalling ‘the strange non-death of neoliberalism’ (Crouch, 2011).

Governments not only spent billions bailing out corrupt and irresponsible financial institutions, and used their consequently swollen debt burdens as reasons to keep fiscal stimuli small and cut welfare spending back drastically, they also insisted that the private sector must power recovery when in fact it was too enfeebled to do so. All this was done just to assuage financial interests. No greater sign of their continuing hold on political power is necessary than such appeasement when punishment was due. After the bailout repaired their balance sheets, financial institutions, particularly in the United States, seemed to be back to business as usual, entering new arenas of speculation: commodities and emerging markets. This led to calls to regulate commodities trading and capital controls (UNCTAD, 2011). In the United States the banks also poured billions into resisting the implementation of the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act, which would re-regulate finance and impose, inter alia, the ‘Volcker rule’ that banks under federal deposit insurance be prevented from proprietary trading.

Part of this continuity must be attributed to the lack of widespread mobilization against austerity except where it was particularly acute, as in Greece. After all, wresting worthwhile reforms, let alone revolutions, from crises requires organized parties and movements capable of taking the opportunities that crises proverbially offer.
However, such capability also requires understanding the drift and direction of change and, on the principle that ‘in the contradiction lies the hope’, the possibilities that fractures in the old order contain. This is what globalization and empire, in whose thrall so much left and progressive thinking still remains, are unable to offer. These cosmopolitan ideologies obscure the possibilities contained in national politics and avoid the complex task of linking them to the possibilities for international solidarity and action, preferring instead to affect a dangerous disdain for the national – treating it as practically synonymous with the chauvinistic – and a politically enervating cosmopolitanism. They also one-sidedly emphasize the strength of the forces of order in self-restricting and ultimately self-defeating ways. In their place, Geopolitical Economy shows that the present crisis contains more possibilities for progressive change than the world has seen in at least a generation.

Prima facie, this book shows that the present historical moment is one in which one long chapter – that of the dominance, actual and attempted, of single powers – in the history of imperialism has closed. The world now stands at the cusp of a further deepening of the multipolarity that imperial and would-be imperial powers and their cosmopolitan ideologies – free trade, HST, globalization and empire – have failed to prevent. Of course, imperialism as such has not ended – stronger countries will continue to try to maintain unevenness and resolve the contradictions of their capitalisms at the expense of weaker ones – but neither has combined development. Stronger powers are less likely to have their way in the face of more numerous and stronger contenders and larger populations capable of aspiring to more than bare survival. And while collusion between imperial powers, and between national ruling classes and imperialism, cannot be ruled out, greater competition between a greater number of relatively powerful countries in the world is likely to make both relatively less probable.

Geopolitical Economy also shows, more esoterically, the fracture in the foundations of the power of financial capital, the contradiction in its present condition which not even continuing access to the corridors of power can resolve. For US attempts to keep the dollar as the world’s currency have, since 1971, rested on financial contrivances, and these have been at the root of what is known as financialization. Its end leaves US attempts to preserve the dollar’s world role with little to conjure with. Financialization was not something that affected all countries more or less evenly and separately, but a US- and dollar-centred phenomenon that undergirded the dollar’s career as the
world’s money. Not only did international, largely dollar-denominated, capital flows collapse in the crisis, they have failed to recover to 2007 levels (Borio and Disyatat, 2011), even though the United States bailed out its banks so fulsomely. Worse, the bailout and the deterioration of the US fiscal position it entailed have only pushed the dollar further down. Though the US dollar went up at particularly acute moments of crisis and though it was considerably buoyed up by the Eurozone crisis, overall it has sustained its downward trend since 2000. Meanwhile, European banks were not so fully bailed out by their more conservative financial authorities and have since suffered ‘haircuts’ amid the Eurozone crisis. Indeed, the bailouts themselves, and their very different national patterns, have also effectively renationalized financial sectors, fracturing the ‘global’ financial system that undergirded the dollar in recent decades into its national components.

These developments point to two very important possibilities for the left, which are not currently being pursued precisely because, under the lingering influence of globalization and empire, it is unable to see them. Firstly, there is the possibility of re-regulating finance nationally, because the international structures that sustained each national pattern of financialization have been drastically weakened. And secondly and equally importantly, there is the possibility, and increasingly the reality, of making new international monetary arrangements that no longer rely on the US dollar’s dangerously unstable ways of providing international liquidity. In place of the dollar-denominated financialization that for so long strangled the productive sectors and created more inequality than ever before, both within and between countries, such arrangements promise to create a world of more equal, productive and egalitarian, and also more culturally dynamic and environmentally sustainable, societies.

THE PLAN OF THE BOOK

This book deals with ideas, the historical developments that occasioned them and the politically mediated relationships between the two. It cannot therefore treat ideas as eternal, to be discussed first in a ‘theoretical’ chapter, as is the custom of so much social-scientific writing. Instead the book is organized in a broadly chronological manner, and ideas and developments are interweaved throughout, although Chapters 2 and 5 linger longer over ideas than developments. The book’s three arguments, moreover, intertwine in its historical narrative.
The first argument, about the materiality of nations, is taken up mainly in Chapters 2 and 5, which contest free trade and HST respectively, though it also figures in the other chapters, particularly Chapters 7 and 8 in relation to globalization and empire respectively. Chapter 2 proceeds by undermining the idea of the liberal free trade nineteenth century. The leading capitalist power of that era indulged in protection as well as imperialism to achieve and sustain its industrial revolution. The two fictions on which free trade rested – Say’s law and comparative advantage – formed no part of sounder understandings. Adam Smith, Hamilton and List, Marx and Engels, the classical theories of imperialism and UCD, and Keynes, Polanyi and writers on the developmental state all underlined the materiality of nations, state roles in capitalism, and capitalism’s intimate connection with imperialism, and with state-directed protectionist development, each in their own way. Not only was Smith no advocate of free trade and the ‘invisible hand’, classical political economy contained a greater appreciation of the importance of states than of the beneficence, let alone inevitability, of free trade.

A novel interpretation of Marx and Engels is critical to making the case for the materiality of nations, and Chapter 2 recovers their theories of crisis from the disdain of most Marxist economics and shows that, contrary to the dominant interpretation, Marx and Engels were neither advocates of free trade nor believers in its centrality to capitalism. Rather, they criticized free trade, understood its ideological functions for imperialism, and conceived of the geopolitical economy of capitalism as ‘the relations of producing nations’ in an understanding that encompassed combined development avant la lettre. They would have needed to have their heads in the clouds to do anything else: after all, they witnessed how, while Britain imposed one-way free trade on her colonies, independent jurisdictions willing and able to assert their policy autonomy, under the influence of policy makers and thinkers like the American Hamilton and the German List, protected and developed their economies to emerge as the United Kingdom’s competitors, imperial as well as industrial.

For international competition between capitalist states at this time was as much about colonies as about markets. As such competition heightened international tensions in the decades preceding the First World War, a starburst of predominantly Marxist and Bolshevik theories – the classical theories of imperialism – emerged to explain them. They either traced imperialism to
capitalism’s contradictions in general, particularly the paucity of demand (Hobson and Luxemburg), or to a new phase of capitalism characterized by ‘monopoly capital’, ‘finance capital’, or (a more intense) ‘nationalization of economies’ (Lenin, Hilferding and Bukharin respectively). UCD systematized the more diffuse Marxist understanding of the world order in conjunction with these theories. Together they responded to the need of the growing working class parties in the Second International to understand the fast-evolving world situation and that of Bolsheviks to forge a political line amid the Russian Revolution.

Meanwhile the turn towards neoclassical economics set the intellectual clock back and, rather than using Marxist tools to criticize it, Marxists sought to adapt Marxism to it. Marxist economics acquired a purely economic understanding of capitalism quite foreign to the Marxist tradition, and left further theoretical advances towards a genuine geopolitical economy to be made by non-Marxist critics of neoclassical economics such as Keynes and Polanyi. Amid the social-scientific division of labour that now came to prevail, the bourgeois discipline of IR, for its part, emerged to take a purely political view of its object, which would ever since sacrifice understanding to legitimizing great power behaviour.

Domestically, Keynes and Polanyi not only underlined states’ central role in capitalist societies but also advocated the extension of that role to promote full employment and social protection. Internationally, their overlapping critiques of free trade and the international gold standard rested on acute insights into the geopolitical economy of the world of nation-states that would emerge from the impending end of British supremacy and formal colonialism. Keynes’s critique underlay his original proposals at Bretton Woods to create a multilateral currency and a clearing system that would minimize trade imbalances. Such arrangements offered the best chance for productive and egalitarian national economies and international cooperation (Desai, 2009a). They were defeated, however, by a United States intent on emulating the United Kingdom’s former world dominance, at least by installing the dollar as the world’s currency. Thanks to the Second World War, it was better positioned to attempt it than it had ever been, or would ever be again.

Chapter 3 opens the second argument, which proceeds through the rest of the book, tracing the United States’s imperial career up to the Bretton Woods moment. It outlines how the United States’s foundational imperial aspirations, which were from the start bound
up with economic expansionism, powered its early continental expansion. After it reached the Pacific, the United States briefly and disastrously pursued territory overseas. However, by the early twentieth century, a new corporate elite had reformulated US expansionism into an aspiration to replace the United Kingdom’s imperial world role, not by acquiring a territorial empire, which the unfolding of UCD now made impossible, but by making the dollar the world’s currency and New York the world’s financial centre. It also laid the institutional basis for such emulation by creating the Federal Reserve in 1913.

This recast aspiration determined that the United States would enter the First World War just when its economic bonanza for the United States threatened to end without US entry, and both world wars increased the United States’s economic strength relative to the rest of the world. In the inter-war period New York and the dollar did overtake London and sterling in world financial affairs, but only just. Moreover, the United States achieved these aims only in a rather perverse way. For the capital flows on which the dollar’s and New York’s new importance rested were not the sort of private flows that gave London its prominence before 1914, but intergovernmental flows stemming from US insistence on being repaid for its war loans to its allies, and on the allies’ consequent insistence on being paid the infamous reparations by Germany. The unfolding of UCD not only denied the United States a territorial empire but ensured that the world economy was more than ever composed of competing national economies. The governments of these economies had, moreover, become even more important economic actors and their competition had resulted in war. Moreover, war-generated capital flows made their own contribution to the depth of the Great Depression in the United States.

As the Second World War began to pull the United States out of the Great Depression, Henry Luce relaunched the idea of the United States replacing the United Kingdom as the ‘managing segment’ of the world economy with his famous vision of the ‘American century’. The United States deployed the overwhelming economic and financial superiority the war had fashioned for it to determine the shape of the postwar world order at Bretton Woods. Contrary to the widespread view that the United States created benign multilateral institutions of economic governance, it insisted on installing the gold-backed dollar as the world’s currency, left the multilateral institutions it could not avoid creating as weak as possible, and rejected Keynes’s far more progressive proposals
in the most promising attempt yet to realize its mimetic imperial aspiration.

Chapter 4 charts the troubled course of the dollar as the world’s currency until Nixon closed the gold window. This dénouement was all but inevitable: the unfolding of UCD up to that point had already ensured that the United States was a national, not an imperial, economy, and as such its currency could not stably be the world’s currency. And the further unfolding of UCD ensured that its overwhelming postwar economic dominance would soon be eroded. In the 1950s, the US export surplus subjected the world to a ‘dollar shortage’ which Marshall Plan aid was too small to address. Once Western European economies recovered, made their currencies convertible in 1958 and began competing with the United States, however, there was a dollar glut instead. The dollar now sat on the horns of the ‘Triffin dilemma’ (Triffin, 1961). Being only a national economy committed to its own expansion (a commitment which an enfranchised working class only strengthened) the United States could not provide liquidity through capital exports (see also Hobsbawm, 2008: 80–91, Arrighi, 2005b: 113–16). Running balance of payments deficits was the only way to provide the world with liquidity, but it was self-defeating, as deficits undermined the dollar’s value. Worse, the US economy began to lose competitiveness and acquired that tendency to suck in imports and create trade deficits with growth that dogs it to this day. US imperial aspirations ruled out the sort of vigorous state intervention that would have been necessary to address the problem, confining it to macro-economic policy and a surreptitious industrial policy, military Keynesianism, which was advanced in the guise of defence policy. These could only produce inflationary growth, while military Keynesianism only made the US economy unduly reliant on uncompetitive industries, further undermining the dollar.

To top it all, the recovery of Western Europe and Japan undermined the United States’s postwar economic position. The United Kingdom had lost its dominance as the first industrializer to the combined development of its first challengers, and the United States faced even stronger forms of combined development. Communism actually truncated the capitalist world that the United States could attempt to lead, and forced it to foster combined development in its rivals and to support decolonization, allowing former colonies to also pursue combined development. Indeed, the United States failed to create a liberal world economy, the sine qua non of its planned emulation of the United Kingdom. Thanks to
the threat of communism and the devastation of war, not only did capital controls remain necessary, such liberalism as the postwar world economy could achieve was ‘embedded’ in statist institutional arrangements, national and international (Ruggie, 1982). Moreover, UCD entered a new phase with the recovery of Western Europe and Japan. It mired the advanced industrial world in the long downturn of ‘overcapacity and overproduction’ in which they would compete for shares of a stagnant world market (Brenner, 1998).

How these difficulties of the US imperial project were encountered and dealt with by policy makers comes through in the Economic Reports of the President (ERPs) annually presented to Congress under the 1946 Employment Act. It enjoined the US President to “coordinate and utilize all its plans, functions, and resources” to bring about and maintain maximum production and employment’ and report on progress to Congress (Employment Act quoted in ERP, 1948 Midyear: 47). Annual ERPs (semi-annual reports stopped after 1952), produced by the Council of Economic Advisors (CEA), covered the developments of the previous year and were an ‘opportunity for national self-examination and self-criticism … a challenge to the President and the Congress to determine the causes of whatever problems we face in our economic life and to find the solutions to those problems’ (ERP, 1947 January: vii). As such, the ERPs constitute the textual nexus where the chief contradictions of the US imperial enterprise at the national and the international level were worked out. The accounts of Chapters 4, 6, 7 and 8 rely on them.

The Triffin dilemma worsened through the 1960s. Creditors governments and central bankers began to demand gold for their dollars. As gold flowed out, the gold pool was created in 1961 to ensure the dollar’s cover. It was amid the dollar’s mounting difficulties that elements of HST first began to appear. Influential policy intellectuals like Charles Kindleberger began to argue that the erosion of the United States’s economic weight, competitive strength or gold reserves did not matter. They had never undergirded the dollar’s world role: the depth and sophistication of US financial markets had done so. The dollar’s gold peg was at best incidental, whereas the United States’s debtor status was its condition: the United States was banker to the world, providing it with critical financial intermediation (Despres, Kindleberger and Salant, 1966; Salant, 1966). This international financial intermediation hypothesis (IFIH) averred that if foreign governments and central bankers did not know this, private holders of dollars did, and they would support the dollar’s value.
There is no evidence that the Nixon Administration believed in the IFIH when it closed the gold window in 1971, though Treasury Secretary Connally’s statement that ‘the dollar may be our currency but it’s your problem’ was widely taken to mean that the United States has since followed a policy of ‘benign neglect’ of the dollar’s value leaving private confidence to support it. Chapters 6 to 8 show how far this view is from the truth.

Chapter 5 pauses over HST to detail how it was composed and spread thereafter. It recast the US world role in the 1950s and 1960s as ‘hegemonic’ entirely retrospectively. And it framed the actions the United States now took as attempts to recreate this desirable state of affairs. Amid the gathering declinism of the 1970s, HST’s influential originator, Charles Kindleberger, argued that the Great Depression was caused because the United Kingdom was no longer able and the United States was not yet willing to take up the tasks of world economic ‘leadership’. The implication was that the economic difficulties of the 1970s resulted from the loss of that leadership, and reviving it would resolve them. This was not a social scientist originating a theory, but an influential US opinion and policy maker giving the United States’s formative expansionism, recast by Luce at mid-century, yet another form but with one critical difference: he was doing so after the best attempt the United States could ever hope to make had failed. Unlike free trade, which had disguised the United Kingdom’s protectionist industrialization and imperialism in the heyday of its productive dominance, HST emerged only after the erosion of the closest thing to such dominance the United States would enjoy to dissimulate the inherent instability of the successive financial bases the dollar’s world role would now rely on. HST took a number of distinct forms, soon dominating IPE and acquiring its WS version. Well into the 1980s the emphasis remained on the exhaustion of US hegemony. Renewalist strands began to emerge in the late 1980s, though they had to wait nearly a decade before the United States’s illusory economic strength in the late 1990s and its equally illusory military strength in the early 2000s made it briefly but very widely credible.

Chapter 5 ends with the alternative to HST as an account of the world order: the geopolitical economy of capitalism in the latter half of the twentieth century and the early twenty-first century. It relies on Robert Brenner’s history of the long boom and the long downturn (Brenner, 1998, 2002, 2006, 2009). It reveals that the combined development of recovering economies powered the long boom and created the overcapacity and overproduction that was the initial cause of the long downturn. It persisted over the next
decades because firms and governments of states with politically enfranchised working classes were unwilling to permit a ‘slaughter of capital values’ on a scale sufficient to end it. How the United States managed the dollar’s world role in these circumstances we see in the chapters that follow.

Chapter 6 covers the period between two major low points in the career of the dollar – 1971 and the end of the George Bush Sr presidency in 1992. The Nixon Administration did not take the breezy IFIH view when it closed the gold window: it was aware that the mercantilism of its actions could spell the end of the dollar’s world role. Private confidence signally failed to replace the confidence that foreign governments and central bankers refused to repose in the dollar. The United States soon had to intervene in currency markets to prop it up. The dollar’s future remained uncertain until the oil price rise by the Organization of Petroleum Exporting Countries (OPEC) and US success in convincing OPEC governments to deposit oil surpluses in dollar-denominated investments. The massive spurt in international capital flows these petrodollars created was the first of the many financializations – distinct phases of financialization – that would be necessary for the dollar’s world role, and the most benign. With sluggish advanced economies not demanding capital, US banks lent to developing and communist countries for productive investment, setting off a spurt of debt-led industrialization on historically low real interest rates. By the late 1970s, however, the dollar headed down again, requiring the United States to cooperate with other major industrial economies in regular G-7 meetings to stabilize exchange rates and maintain growth. However, when the second oil shock hit, this time without any significant increase in capital inflows into the United States, the dollar plunged again. The new Fed chairman, Paul Volcker, allowed interest rates to rise to double digits to shore up the dollar, causing a severe recession. ‘Declinism’ peaked with President Carter’s ‘malaise speech’ proposing to scale down the US world role and increase competitiveness to help the United States earn its keep.

Reagan’s election cast this option into history’s dustbin, but his neoliberal, monetarist, supply-side economics proved no solution. Rather, amid high interest rates, the Reagan Administration generated growth through massive fiscal stimuli – large tax cuts, renewed military Keynesianism and a massive programme of subsidies for defence-related research and development (R&D) which might aptly be called military Schumpeterianism. Unprecedented budget deficits resulted and, with the United States’s fundamental competitiveness problems remaining unresolved, growth now generated trade deficits.
The dollar remained strong despite the ‘twin deficits’ because capital flowed into the United States in three ways: in response to Volcker’s high interest rates; as debt repayments from the third world thanks to the International Monetary Fund (IMF)’s management of the resulting third world debt crisis to save US and Western banks; and from Japanese financing of US deficits in exchange for access to US markets. These capital inflows constituted a second major burst of dollar-denominated financialization. They sent the dollar so high above its value that manufacturers pressured the government to bring it down and leading policy makers worried about a potentially catastrophic drop. The 1985 Plaza accord organized controlled dollar depreciation. The stock market crash two years later would make it unnecessary.

Reagan’s unprecedented fiscal stimulus notwithstanding, the US economy could only absorb so much capital: the rest inflated the stock market bubble that burst in 1987. In its aftermath the policy that would keep new bubbles coming made its first appearance: the new Fed chairman’s ‘Greenspan put’, the provision of extra liquidity to financial markets amid crises. It was widely credited with averting an immediate recession. None of the asset price bubbles that followed (and the biggest were yet to come) could hide the weakness of the US economy for long, and each worsened it significantly.

The lower dollar of the late 1980s and early 1990s briefly indicated the direction that US economic fundamentals could really sustain: higher demand for US exports combined with slower growth limiting imports helped close the US trade deficit briefly in the early 1990s. If imperial aspirations were forsaken in favour of a determined state effort to revive productivity and competitiveness, prosperity was at hand. It was not to be. By the time communism collapsed, the US economy was in the doldrums and the president and party that ‘won’ the cold war were defeated in an ‘It’s the economy, stupid!’ election.

Chapter 7 traces the strange trajectory of globalization. The Clinton Administration first used ‘globalization’ in the sense given it by Robert Reich, an early Clinton economic adviser and secretary of labor until 1997. It referred to competitive threats to be countered with a strategy for higher-value production and trade promotion aimed at the ‘big emerging markets’. It was soberly productive compared with the heady financial brew Joseph Stiglitz concocted for the second Clinton term. The latter would be backed by the financial interests whose power the Greenspan Fed had increased so much that they dominated US business and the Democratic Party.
They turned plans to revitalize the US economy into a programme for deficit reduction, higher interest rates and, through the ‘Reverse Plaza accord’ of 1995, a high dollar.

In the mid-1990s, in its third major phase, financialization briefly took a centripetal form, directing capital outwards as the high dollar regime interrupted an incipient manufacturing recovery. And, having suffered near collapse in the third world debt crisis, US and Western financial institutions now lent only short-term funds in the form of securities. They, however, came with their own dangers. These short-term funds were entering markets they knew little about, did not finance productive investment there and were easily spooked into sudden and massive exits. The series of financial crises in third-world countries culminated in the massive 1997–98 East Asian financial crisis. Only thereafter, as money fled home to the United States, did the geopolitical economy of globalization fully compose itself. The US-centred international financial system, which sucked in capital from around the world and poured it into the United States, particularly into the US stock market, was its pivot. ‘Globalization’ acquired its more familiar meaning of the desirability and inevitability of a unified world economy. It was fully expressed in ERP 1997, when Stiglitz chaired the CEA. In a world where economies remained national and trade was heavily politicized, the report’s generalities about openness and interdependence focused on financial openness, particularly on lifting capital controls in third-world countries, ostensibly so they could get better access to capital. In the short period when capital did flow into these economies, it generated little productive investment and much economic mayhem. Thereafter, the effect of freeing capital movements was to allow it to flow into dollar-denominated assets to finance the US deficits and swell US-centred financialization. In the 1990s these flows, particularly of private capital into the US stock market, would be further encouraged by Greenspan’s talk of the US new economy and its ‘productivity miracle’. The result, the real and intended result of globalization as it came into its own in the late 1990s, was the stock market bubble and associated consumption and investment booms. When the stock market bubble burst in 2000, the main motor of globalization fell silent, though some misidentified 9/11 as the cause (Economist, 2001a; Ferguson, 2005).

Chapter 8 shows how empire proved the last and most desperate attempt to maintain the dollar’s world role and entailed the greatest increase in international capital flows. The war on terrorism that defined the empire phase was not prompted by 9/11. Those events,
whose official interpretation continues, in any case, to be questioned a decade later (MacGregor and Zarembka, 2010), only provided a barely credible excuse for launching a project Bush Jr took office with. But while the military expenditure involved was greater than ever (Stiglitz and Bilmes, 2008), the US economy was less prepared than ever to support it.

An intractable recession followed the stock market decline in 2000. The Fed had become the main manager of the US economy since Clinton’s turn to deficit reduction, and the economically illiterate Bush Jr Administration was not about to change that. The Fed recognized that credit-fuelled consumption among upper-income groups, thanks to a housing bubble that had been building since the mid-1990s, was the only source of growth. It now inflated that bubble further in the fourth major financialization as the easiest way to produce the growth figures that would keep foreign funds flowing in to finance the United States’s ever-widening deficits, keep growth going and support the dollar. The willingness of the rest of the world to hold dollars now governed the fate of the US economy. A new a series of discourses emerged to explain away the US economy’s reliance on rock-bottom interest rates (the danger of ‘deflation’), its inability to grow fast (the ‘great moderation’), and the manifest obscenity of the world’s capital financing consumption predominantly of the rich, in one of the world’s richest societies, rather than much-needed developing world investment (the ‘global savings glut’). The capital inflows financed the United States’s deficits cheaply and expanded the volume of dollar-denominated financial activity on which the dollar’s liquidity depended. The bulk of these flows came from the rest of the advanced industrial world, contrary to the ‘global savings glut’ argument’s focus on East Asia (Borio and Disyatat, 2011).

Talk could, of course, postpone the inevitable only so long. By the middle of the decade, growth in the emerging economies, particularly China, was increasing the prices of commodities and capital and putting downward pressure on the dollar. The high interest rates that were now necessary burst the housing bubble, thus ending the consumption-led growth it had supported. It is this shift which also ensured that the great recession would end not just the Bush empire project but the succession of US attempts to dominate the world economy since the early twentieth century, in particular by establishing and maintaining the US dollar as the world’s currency.