

HEGEMONY UNRAVELLING—I

THE 'E' AND 'I' WORDS, empire and imperialism, are back in fashion. Their return is not due, *pace* John Ikenberry, to the advent of the 'American unipolar age' in which '[f]or the first time in the modern era, the world's most powerful state can operate on the global stage without the constraints of other great powers'.¹ That age had begun with the collapse of the Soviet bloc in 1989, yet throughout the 1990s the buzz-word was 'globalization', not empire or imperialism; and as Ikenberry himself notes, the unparalleled global power of the United States was generally discussed under the rubric of 'hegemony'. Even critical thinkers—including many Marxists—found the concepts of empire and imperialism of little analytical use.² In the aftermath of the 1991 Gulf War, Bruce Cumings claimed that it would have taken an electron microscope to detect the use of the word 'imperialism' to describe the United States' role in the world.³ Hyperbole, of course; but the exaggeration contained an important element of truth.

Nor did the publication of *Empire* in 2000 significantly alter this situation, for Hardt and Negri's work simply repackaged and gave a radical twist to the central tenets of globalization-speak, including the proposition that under the present conditions of global economic and informational integration no nation-state, not even the us, can form the centre of an imperialist project. Indeed, Hardt and Negri presented *Empire* as a logic and structure of world rule that was in key respects antithetical to the imperialism that Marxists had theorized in the twentieth century.⁴

The real break with the 1990s occurred only in 2001, when the Bush Administration responded to the events of September 11 by embracing a new imperial programme—that of the Project for a New American Century. There is a curious resemblance between this reflex and the actions that, sixty years earlier, had ushered in the first American Century.

The Great Depression of the 1930s and the rise of fascism in Europe and Japan had convinced Roosevelt that a Pax Americana was necessary to ensure us domestic security and prosperity. But non-interventionist currents in foreign policy were hard to challenge as long as the American people believed that continental isolation ensured their safety. Between the outbreak of the European war and Pearl Harbor, Franz Schurmann has argued, 'Roosevelt undoubtedly prayed for some dramatic demonstration that this was not so'. When his prayers were answered, 'Roosevelt made astute use of the ideological sentiments of nationalism aroused by Pearl Harbor to elaborate an ideology of imperialism through which he promised Americans order, security and justice.'⁵

Once the Second World War was over, however, isolationist dispositions reasserted themselves. Truman and Acheson knew very well that appeals to *raison d'état* and us economic interests would not be enough to overcome them. In drafting the text that became the Truman doctrine, they accordingly followed Arthur Vandenberg's notorious advice to 'scare hell out of the American people' by inflating the notion of global Communist menace.⁶ The trick worked in winning Congress support for the Marshall Plan. But something more was needed to secure funding for the large-scale us and European rearmament envisaged in National Security Council document 68, which Truman approved in principle in April 1950. The nsc document gave no precise figure, but estimates suggested

¹ John Ikenberry, 'Illusions of Empire: Defining the New American Order', *Foreign Affairs*, March–April 2004. I would like to thank Andre Gunder Frank, Antonina Gentile, Greta Krippner, Thomas Ehrlich Reifer, Mark Selden, Steve Sherman, Arthur Stinchcombe and Charles Tilly for their comments on previous papers, parts of which have been incorporated in this article; Benjamin Brewer and Beverly Silver for their comments on the article itself; and Ravi Palat for incessantly bombarding me with evidence for and against my theses.

² Leo Panitch and Sam Gindin, 'Global Capitalism and American Empire', in Leo Panitch and Colin Leys, eds, *The New Imperial Challenge*, London 2003, pp. 2–3.

³ Bruce Cumings, 'Global Realm with no Limit, Global Realm with no Name', *Radical History Review* 57, 1993, pp. 47–8.

⁴ Michael Hardt and Antonio Negri, *Empire*, Cambridge, MA 2000, pp. xiv, 327–32. For a variety of critical assessments of the book, see Gopal Balakrishnan, *Debating Empire*, London 2003.

⁵ Franz Schurmann, *The Logic of World Power: An Inquiry into the Origins, Currents, and Contradictions of World Politics*, New York 1974, pp. 40–1.

⁶ Thomas McCormick, *America's Half-Century: United States Foreign Policy in the Cold War*, Baltimore 1989, pp. 77–8.

annual expenditures 300 per cent above that originally requested by the Pentagon for 1950:

How to get that kind of money from a fiscally conservative Congress, even in the name of anti-communism, presented no small task for the Administration. What was required was an international emergency, and since November 1949, Secretary Acheson had been predicting that one would occur sometime in 1950 in the Asian rimlands—in Korea, Vietnam, Taiwan, or all three. Two months after the President examined nsc-68, that crisis happened. Acheson was to say later, ‘Korea came along and saved us’.⁷

It is hard to tell what Bush may have been praying for in the eight months between his inauguration and September 11, but we know that the promoters of the Project for a New American Century within his Administration were waiting for a chance to implement the new imperial strategy they had long been working on.⁸ Their first months in office were not propitious, but bin Laden, to paraphrase Acheson, ‘saved them’. As Michael Mann has observed, he provided both ‘the popular mobilizing power and the targets’.⁹ The menace of Muslim ‘fundamentalists’ and ‘rogue states’ became the new fear factor, scaring hell out of the American people and winning almost unanimous Congress support for the invasion of Iraq that Cheney, Rumsfeld and Wolfowitz had been unsuccessfully advocating for the best part of a decade.¹⁰

It is this development that has revived the fortunes of the ‘E’ and ‘I’ words to describe the emergent imperial project of the United States. Many critics have pointed out that the policies adopted by the Bush Administration in response to 9/11 constituted a particularly unrealistic and clumsy project of global supremacy, and if they fail in their objectives

⁷ McCormick, *America’s Half-Century*, p. 98.

⁸ For details on the Project, see www.newamericancentury.org. On the rise of its promoters to power, see Arthur Schlesinger, ‘The Making of a Mess’, *New York Review of Books*, 22 September 2004, pp. 40–3.

⁹ Michael Mann, *Incoherent Empire*, London 2003, p. 9.

¹⁰ On the determination of the neo-conservatives to wage war on Iraq long before September 11, see Ron Suskind, *The Price of Loyalty: George W. Bush, the White House, and the Education of Paul O’Neill*, New York 2004; and Richard Clarke, *Against All Enemies: Inside America’s War on Terror*, New York 2004. Clarke reports on the now (in)famous cabinet-level meeting in which, less than a day after the attacks, Rumsfeld pointed out that there were ‘no decent targets for bombing in Afghanistan’ and therefore ‘we should consider bombing Iraq instead’ because it had ‘better targets’.

the ‘E’ and ‘I’ words may lose currency as quickly as they gained it.¹¹ Nevertheless the social, political and economic circumstances that prompted the emergence of the Project for a New American Century, and its adoption as official us policy, can be expected to persist in one form or another.

The purpose of this article is to seek some understanding of what these circumstances might be and how they may change under the impact of the War on Terrorism. Of particular interest is whether and how the New American Century project and its adoption by the Bush Administration relate to the turbulence of the global political economy since 1970. A previous article on that topic concluded by underscoring the contradictory nature of the revival experienced by the economic and political fortunes of the United States and us capitalism in the 1990s.¹² But it left open the question of what might ensue from those contradictions—first and foremost, from an escalation of American foreign debt that is without precedent in world history. Nor did it deal with the question of the connections, if any, between these contradictions and the emergence of a new us imperial project.

In dealing with these questions, I begin by examining David Harvey’s interpretation of the relationship between imperialism and the spatial and temporal unevenness of capitalist development, focusing specifically on the concepts of ‘spatial fix’ and ‘accumulation by dispossession’.¹³

¹¹ See, among others, Emmanuel Todd, *After the Empire: The Breakdown of the American Order*, New York 2003; George Soros, *The Bubble of American Supremacy: Correcting the Misuse of American Power*, New York 2004; and Mann, *Incoherent Empire*.

¹² See Arrighi, ‘The Social and Political Economy of Global Turbulence’, NLR 20, March–April 2003, pp. 5–71. Robert Brenner’s two books critically examined in the article are ‘The Economics of Global Turbulence: A Special Report on the World Economy, 1950–98’, NLR 1/229, May–June 1998, and *The Boom and the Bubble: the us in the World Economy*, London 2002.

¹³ David Harvey, *The New Imperialism*, Oxford 2003; henceforward, NI. In this article I develop an analysis of the rise and apparent demise of the neo-conservative imperial project that builds upon but also departs from Harvey’s. When Harvey sent me the Clarendon Lectures that later became *The New Imperialism*, he presented them as ‘a kind of post-factum development’ out of a seminar we had jointly taught at Johns Hopkins: ‘what I should have said but couldn’t and in any case the contemporary disaster was not upon us to clarify the mind.’ In this article I take my turn in saying what I should have said but couldn’t, with the double advantage of having Harvey’s analysis to build upon and two more years of the ‘contemporary disaster’ to clarify the mind.

I then show how the neo-conservative imperial project has unravelled in the two years since Harvey's book went to press, undermining instead of reviving us hegemony. In Part Two of this essay, to follow, I will 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 will 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.

I. ORIGINS OF NEO-CONSERVATIVE IMPERIALISM

'Imperialism is a word that trips easily off the tongue.' Like John Hobson a century earlier, Harvey notes that the term has assumed so many different meanings that its analytic, as opposed to polemical, use requires some clarification.¹⁴ Its most general meaning is an extension or imposition of the power, authority or influence of a state over other states, or stateless communities. Thus understood, imperialism has been around for a very long time under a great variety of forms. But the special brand of imperialism that Harvey calls 'capitalist imperialism' or 'imperialism of the capitalist sort' is what we need to investigate in order to understand why the greatest capitalist power in world history, the United States, has developed a military apparatus of unparalleled and unprecedented destructiveness and has shown a strong disposition to deploy that apparatus in the pursuit of the most ambitious project of world rule ever conceived.

A. Logic of territory and logic of capital

Harvey defines imperialism of the capitalist sort as a 'contradictory fusion' of two components: 'the politics of state and empire' and 'the molecular processes of capital accumulation in space and time'. The first component refers to 'the political, diplomatic and military strategies invoked and used by a state (or some collection of states operating

¹⁴ NI, p. 26. On Hobson's classic definition of imperialism and its usefulness in mapping analytically the different (often opposite) meanings that the term has assumed historically, see Arrighi, *The Geometry of Imperialism* [1978], London 1983.

as a political power bloc) as it struggles to assert its interests and achieve its goals in the world at large.’ This struggle is driven by a ‘territorial logic of power’—a logic, that is, in which command over a territory and its human and natural resources constitutes the basis of the pursuit of power. The second component, in contrast, refers to the flow of economic power ‘across and through continuous space, towards and away from territorial entities . . . through the daily practices of production, trade, commerce, capital flows, money transfers, labour migration, technology transfer, currency speculation, flows of information, cultural impulses and the like.’ The driving force of these processes is a ‘capitalist logic of power’—a logic, that is, in which command over economic capital constitutes the basis of the pursuit of power.¹⁵

The fusion of these components is always problematic and often contradictory (that is, dialectical). Neither logic can be reduced to the other. Thus, ‘it would be hard to make sense of the Vietnam War or the invasion of Iraq . . . solely in terms of the immediate requirements of capital accumulation’, because it can be plausibly argued that ‘such ventures inhibit rather than enhance the fortunes of capital’. By the same token, however, ‘it is hard to make sense of the general territorial strategy of containment of Soviet power by the United States after the Second World War—the strategy that set the stage for us intervention in Vietnam—without recognizing the compelling need felt on the part of business interests in the United States to keep as much of the world as possible open to capital accumulation through the expansion of trade . . . and opportunities for foreign investment.’¹⁶

While the territorial and the capitalist logics of power are not reducible to one another, and at times the territorial logic comes to the fore, ‘what

¹⁵ NI, pp. 26–7. Harvey refers to my own distinction between a capitalist and a territorialist logic of power (Arrighi, *The Long Twentieth Century: Money, Power and the Origin of Our Times*, London 1994, pp. 33–4). His 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. As we shall see in Part II, these differences result in a historical account of the relationship between capitalism and imperialistic practices that departs in key respects from Harvey’s account.

¹⁶ NI, pp. 29–30.

sets imperialism of the capitalist sort apart from other conceptions of empire is that it is the capitalistic logic that dominates.' But if this is the case, 'how can the territorial logics of power, which tend to be awkwardly fixed in space, respond to the open dynamics of endless capital accumulation?' And if hegemony within the global system is the property of a state, or collection of states, 'how can the capitalist logic be so managed as to sustain the hegemon?'¹⁷ Harvey finds these questions especially compelling in view of Hannah Arendt's insightful if somewhat functionalist observations concerning the relationship between the accumulation of capital and the accumulation of power. As she writes in *The Origins of Totalitarianism*:

Hobbes's insistence on power as the motor of all things human . . . sprang from the theoretically indisputable proposition that a never-ending accumulation of property must be based on a never-ending accumulation of power . . . The limitless process of capital accumulation *needs* the political structure of so 'unlimited a Power' that it can protect growing property by constantly growing more powerful . . . This process of never-ending accumulation of power *necessary* for the protection of a never-ending accumulation of capital determined the 'progressive' ideology of the late nineteenth century and foreshadowed the rise of imperialism.¹⁸

Harvey goes on to note that Arendt's theoretical observation corresponds 'exactly' to my own empirical account of the succession of leading organizations that has promoted and sustained the formation of a world capitalist system, from the Italian city-states through the Dutch, the British and now the us phases of hegemony:

Just as in the late seventeenth and early eighteenth centuries the hegemonic role had become too large for a state of the size and resources of the United Provinces, so in the early twentieth century that role had become too large for a state of the size and resources of the United Kingdom. In both instances, the hegemonic role fell on a state—the United Kingdom in the eighteenth century, the United States in the twentieth century—that had come to enjoy a substantial 'protection rent', that is, exclusive cost advantages associated with absolute or relative geostrategic insularity . . . But that state in both instances was also the bearer of sufficient weight in the capitalist world-economy to be able to shift the balance of power among

¹⁷ NI, pp. 33–4.

¹⁸ Hannah Arendt, *The Origins of Totalitarianism*, New York 1966, p. 143. I have italicized 'needs' and 'necessary' to highlight for future reference the functionalist nature of Arendt's contention.

the competing states in whatever direction it saw fit. And since the capitalist world-economy had expanded considerably in the nineteenth century, the territory and resources required to become hegemonic in the early twentieth century were much greater than in the eighteenth century.¹⁹

From hegemony to dominance?

In light of these theoretical and empirical observations, Harvey reformulates his questions concerning the relationship between the territorial and the capitalist logics with specific reference to the present condition of us hegemony. First, does the attempt of hegemonic states to maintain their position in relation to endless capital accumulation inevitably induce them to extend, expand and intensify their powers militarily and politically to a point where they endanger the very position they are trying to maintain? Second, is not the United States now falling into this trap, despite Paul Kennedy's 1987 warning that overextension and overreach have again and again proven the Achilles heel of hegemonic states and empires?²⁰ And finally:

if the us is no longer in itself sufficiently large and resourceful to manage the considerably expanded world economy of the twenty-first century, then what kind of accumulation of political power under what kind of political arrangement will be capable of taking its place, given that the world is heavily committed still to capital accumulation without limit?²¹

Harvey's answer to the first question is that the Bush Administration's adoption of the New American Century project does indeed constitute an attempt to maintain the hegemonic position of the us under the conditions of unprecedented global economic integration created by endless capital accumulation at the end of the twentieth century. Following Neil Smith, Harvey underscores the semantic continuity between Henry Luce's influential 1941 cover editorial in *Life* magazine, 'The American Century', and the emergent project of the 'New' one. In both instances, the us is attributed with a power that is global and universal, rather than

¹⁹ *Long 20th Century*, p. 62. See NI, pp. 34–5. My empirical observations were made independently of Arendt's theoretical contentions. I am grateful to Harvey for pointing out their correspondence.

²⁰ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, New York 1987.

²¹ NI, p. 35.

territorially specific. Hence the preference for the word ‘century’ rather than ‘empire’. As Smith put it:

Whereas the geographical language of empires suggests a malleable politics—empires rise and fall and are open to challenge—the ‘American Century’ suggests an inevitable destiny. In Luce’s language, any political quibble about American dominance was precluded. How does one challenge a century? us global dominance was presented as the natural result of historical progress . . . It followed as surely as one century after another. Insofar as it was beyond geography, the American Century was beyond empire and beyond reproof.²²

And yet, the American Century was clearly not beyond geography, and the chances that a second such century will follow the first are slim, to say the least. The main reasons for this, as we shall see, must be sought in the capitalist logic of power. But even within the territorial logic of power, the Project for a New American Century and its promoters’ fixation on Iraq and West Asia constituted a high-risk approach to sustaining us domination. As Harvey outlines, if the us could install a friendly regime in Iraq; move on to do the same in Iran; consolidate its strategic presence in Central Asia and so dominate Caspian Basin oil reserves—‘then it might, through control of the global oil spigot, hope to keep effective control over the global economy for the next fifty years.’ Since all the economic competitors of the United States, both in Europe and in East Asia, are heavily dependent on West Asian oil,

What better way for the United States to ward off that competition and secure its own hegemonic position than to control the price, conditions and distribution of the key economic resource upon which those competitors rely? And what better way to do that than to use the one line of force where the us still remains all-powerful—military might?²³

Nevertheless, even if such a strategy could succeed militarily—a big if—it would not be sufficient to maintain the *hegemonic* position of the us. Thus, on the eve of the invasion of Iraq, liberal-imperialist ideologue Thomas Friedman had argued in the *New York Times* that there was ‘nothing illegitimate or immoral about the us being concerned that an evil, megalomaniac dictator might acquire excessive influence over the

²² Neil Smith, *American Empire: Roosevelt’s Geographer and the Prelude to Globalization*, Berkeley 2003, p. 20.

²³ NI, pp. 24–5, 75–8.

natural resource that powers the world's industrial base.' But the us has to be careful to convey to the public and reassure the world that the intention was 'to protect the world's right to economic survival' rather than 'our own right to indulge ourselves', that the United States was 'acting for the benefit of the planet, not simply to fuel American excesses . . . If we occupy Iraq and simply install a more pro-us autocrat to run the Iraqi gas station (as we have in other Arab oil states), then this war would be immoral'.²⁴

Harvey uses Friedman's argument to illustrate the difference between hegemony, in a Gramscian sense, and sheer domination. As argued elsewhere, for Gramsci hegemony is the *additional* power that accrues to a dominant group by virtue of its capacity to lead society in a direction that not only serves the dominant group's interests but is also perceived by subordinate groups as serving a more general interest. It is the inverse of the notion of 'power deflation' used by Talcott Parsons to designate situations in which governmental control cannot be exercised except through the widespread use or threat of force. If subordinate groups have confidence in their rulers, systems of domination can be run without resort to coercion. But when that confidence wanes, they no longer can. By the same token, Gramsci's notion of hegemony may be said to consist of the 'power inflation' that ensues from the capacity of dominant groups to present their rule as credibly serving not just their interests but those of subordinate groups as well. When such credibility is lacking or wanes, hegemony deflates into sheer domination, or what Ranajit Guha has called 'dominance without hegemony'.²⁵

Zero-sum leadership

As long as we speak of leadership in a national context, as Gramsci does, an increase in the power of the state vis-à-vis other states is an important component—and in itself a measure—of the successful pursuit of a general (that is, 'national') interest. But when we use leadership in an international context, to designate the fact that a dominant state leads

²⁴ Thomas Friedman, *New York Times*, 5 January 2003; quoted in NI, p. 24.

²⁵ Arrighi and Beverly Silver, 'Capitalism and World (Dis)Order', *Review of International Studies* 27 (2001), pp. 26–7; Talcott Parsons, 'Some Reflections on the Place of Force in Social Process', in Harry Eckstein, ed., *Internal War*, New York 1964, pp. 33–70; Ranajit Guha, 'Dominance Without Hegemony and its Historiography', in Guha, ed., *Subaltern Studies* VI, New Delhi 1992, pp. 231–2.

the *system* of states in a desired direction, the 'general interest' can no longer be defined in terms of an increase in the power of an individual state over others, because by definition this power cannot increase for the system as a whole. A general interest across the system can nonetheless be identified by distinguishing between 'distributive' and 'collective' aspects of power. Distributive aspects of power refer to a zero-sum-game relationship, whereby an agency can gain power only if others lose some. Collective aspects of power, in contrast, refer to a positive-sum-game relationship, whereby cooperation among distinct agencies increases their power over third parties, or over nature. Thus while the general interest of a system of states cannot be defined in terms of changes in the distribution of power among them, it can be defined in terms of an increase in the collective power of the entire system's dominant groups over third parties or nature.²⁶

In concurring with this adaptation of Gramsci's concept of hegemony to interstate relations, Harvey notes that over the last half-century the us has frequently relied on coercive means to subjugate or liquidate antagonistic groups at home and—especially—abroad. Nevertheless, coercion was 'only a partial, and sometimes counterproductive, basis for us power'. An equally indispensable foundation was the us capacity to mobilize consent and cooperation internationally, by acting in such a way as to make at least plausible to others the claim that Washington was acting in the general interest, even when it was really putting narrow American interests first. In this regard, as Harvey writes:

The Cold War provided the us with a glorious opportunity. The United States, itself dedicated to the endless accumulation of capital, was prepared to accumulate the political and military power to defend and promote that process across the globe against the communist threat . . . While we know enough about decision-making in the foreign policy establishment of the Roosevelt–Truman years and since to conclude that the us always put its own interests first, sufficient benefits flowed to the propertied classes in enough countries to make us claims to be acting in the universal (read 'propertied') interest credible and to keep subaltern groups (and client states) gratefully in line.²⁷

²⁶ 'Capitalism and World (Dis)Order', pp. 27–8. On the distinction between distributive and collective aspects of power, see Talcott Parsons, 'The Distribution of Power in American Society', in *Structure and Process in Modern Societies*, New York 1960, pp. 199–225.

²⁷ NI, pp. 39–40.

The Bush Administration and the promoters of a second American Century have of course done all they could to persuade the world that by invading Iraq the us was ‘acting for the benefit of the planet, not simply to fuel American excesses’, as Friedman had suggested. Yet the failure to garner significant international support for the invasion suggests that much of the world believed otherwise. From the start, the main problem was not that the ‘weapons of mass destruction’ and the ‘Iraq–al Qaeda connection’ lacked credibility, but rather that the invasion was inscribed in a broader political project of us global domination that explicitly emphasized distributive rather than collective aspects of world power. The attempted implementation of the plan through the unilateral decision to invade Iraq, Harvey argues, ‘created a bond of resistance . . . between France, Germany and Russia, even backed by China’. This sudden geopolitical realignment made it ‘possible to discern the faint outlines of a Eurasian power bloc that Halford Mackinder long ago predicted could easily dominate the world geopolitically’.²⁸

In light of Washington’s longstanding fears that such a bloc might actually materialize, the occupation of Iraq takes on an even broader meaning:

Not only does it constitute an attempt to control the global oil spigot—and hence the global economy—through domination over the Middle East. It also constitutes a powerful us military bridgehead on the Eurasian land mass which, when taken together with its gathering alliances from Poland down through the Balkans, yields it a highly significant geostrategic position with the potential to disrupt any consolidation of a Eurasian power; and which could indeed be the next step in that ‘endless accumulation of political power’ that must always accompany the equally endless accumulation of capital.²⁹

It is these far-reaching plans that have made the United States the focus of current discussions of empire and the new imperialism. Yet, as Harvey notes, ‘the balance of forces at work within the capitalistic logic point in rather different directions’.³⁰ It is to these forces that we now turn.

B. Overaccumulation crises and production of space

One of the most essential (and theoretically neglected) features of historical capitalism is the ‘production of space’. This process has not only been

²⁸ NI, pp. 84–5. On Mackinder’s current significance for geostrategic thought, see Paul Kennedy, ‘Mission Impossible?’, *New York Review of Books*, 10 June 2004.

²⁹ NI, p. 85.

³⁰ NI, p. 86.

crucial to the survival of capitalism at especially critical conjunctures, as Henri Lefebvre contended.³¹ It has also been the most fundamental condition for the formation and increasing global reach of capitalism as a historical social system. For more than twenty years, Harvey has propounded the theory of a 'spatio-temporal fix' or, for brevity, 'spatial fix' applied to the crisis-prone tendencies of the endless accumulation of capital, which provides a most plausible explanation of why the production of space has been such an essential ingredient of the enlarged reproduction of capitalism.³² In *The New Imperialism* this theory is deployed to highlight the connection between the emergence of the Project for a New American Century and the overaccumulation crisis of the 1970s and 1980s, as well as the contradictions between the territorial logic that underlies this project and the capitalist logic. The term 'fix' has a double meaning:

A certain portion of the total capital is literally fixed in and on the land in some physical form for a relatively long period of time (depending on its economic and physical lifetime). Some social expenditures (such as public education or a healthcare system) also become territorialized and rendered geographically immobile through state commitments. The spatio-temporal 'fix', on the other hand, is a metaphor for a particular kind of solution to capitalist crises through temporal deferral and geographical expansion.³³

The literal meaning of the term 'fix' draws attention to the reliance of capital accumulation on the existence of a particular built environment of facilities (such as ports, railways, roads, airports, cable networks, fibre-optic systems, pipelines, electricity grids, water and sewage systems, as well as factories, offices, housing, hospitals and schools) that constitute fixed capital *embedded* in the land, as opposed to forms of fixed capital (such as ships, trucks, aircraft or machinery) that can be moved around. It is only by fixing certain physical infrastructures *in* space that capital, in all its physically mobile forms, can actually move *over* space in search of maximum profit.³⁴

The metaphorical meaning of the term 'fix', in contrast, underscores the tendency of successful capital accumulation to drive incessantly towards

³¹ Lefebvre, *The Survival of Capitalism: Reproduction of the Relations of Production*, New York 1976.

³² Harvey, *Limits to Capital*, Oxford 1982; and the essays collected in Harvey, *Spaces of Capital: Towards a Critical Geography*, New York 2001.

³³ NI, p. 115.

³⁴ NI, pp. 99–100.

the reduction, if not the elimination, of spatial barriers—what Karl Marx called ‘the annihilation of space through time’; thus unwittingly undermining the monopolistic privileges attached to specific locations through the intensification of competition across geographical space. As a result of this tendency, capital recurrently accumulates over and above what can be profitably reinvested in the production and exchange of commodities within existing territorial systems. This surplus of capital materializes in inventories of unsold commodities that can only be disposed of at a loss, in idle productive capacity and liquidity that lacks outlets for profitable investment. The incorporation of new space into the system of accumulation ‘fixes’ the ensuing crisis of overaccumulation by absorbing these surpluses, first through ‘temporal deferral’ and then through a spatial enlargement of the accumulation system. Absorption through temporal deferral refers specifically to the production of space, that is, to the utilization of surplus capital in opening up and endowing the new space with the necessary infrastructure, both physical and social. Absorption through scale enlargement, for its part, refers to the utilization of surplus capital in the new productive combinations that are made profitable by the geographical expansion of the system of accumulation after the new space has been adequately produced.³⁵

The combined effect of the tendencies to which the two meanings of spatial fix draw our attention is a geographical variant of Joseph Schumpeter’s process of ‘creative destruction’. As Harvey puts it:

The aggregate effect is . . . that capitalism perpetually seeks to create a geographical landscape to facilitate its activities at one point in time only to have to destroy it and build a wholly different landscape at a later point in time to accommodate its perpetual thirst for endless capital accumulation. Thus is the history of creative destruction written into the landscape of the actual historical geography of capital accumulation.³⁶

This geographical variant of the Schumpeterian dynamic is of the greatest theoretical significance. Schumpeter’s own list of the kind of innovations that drive the process of creative destruction did include changes in the spatial configuration of trade and production.³⁷ But Schumpeter never

³⁵ NI, pp. 98–9, 109–12.

³⁶ NI, p. 101.

³⁷ Joseph Schumpeter, *Capitalism, Socialism and Democracy* [1942], London 1950, p. 83. See also Schumpeter, *The Theory of Economic Development* [1934], New York 1961.

spelled out the relationship between innovations that altered the spatial configuration of trade and production and other kinds of innovations. This is what Harvey does by underscoring the interrelated roles that technological and locational advantages play in generating the excess profits that drive the Schumpeterian dynamic. In this process, excess profits—Schumpeter's 'spectacular prizes', rewards far beyond those necessary to call forth the efforts of the small minority who receive them—play a double role. They provide a constant incentive to innovation but also, Schumpeter argued, they propel

much more efficaciously than a more equal and more 'just' distribution would, the activity of that large majority of businessmen who receive in return very modest compensation or nothing or less than nothing, and yet do their utmost because they have the big prizes before their eyes and overrate their chances of doing equally well.³⁸

Instead of reaping spectacular prizes, however, the 'large majority' propelled into the field activate the competition, which does not just eliminate excess profits, but inflicts widespread losses by destroying pre-existing productive combinations.

Harvey theorizes a similar process but focuses on the fact that individual capitalists can acquire excess profits not just by adopting superior technologies, but also by seeking out superior locations:

A direct trade-off exists, therefore, between changing technology or location in the competitive search for excess profits . . . [In] both cases the excess profit that accrues to individual capitalists . . . disappears as soon as other capitalists adopt the same technology or shift to equally advantageous locations . . . To the degree that opportunities for excess profits from location are eliminated . . . the greater the competitive incentive for individual capitalists to disrupt the basis of [the resulting] equilibrium through technological change . . . Competition [thus] simultaneously promotes shifts in spatial configurations of production, changes in technological mixes, the restructuring of value relations and temporal shifts in the overall dynamic of accumulation. The spatial aspect to competition is a volatile ingredient in this volatile mix of forces.³⁹

³⁸ Schumpeter, *Capitalism, Socialism and Democracy*, pp. 73–4.

³⁹ *Limits to Capital*, pp. 390–3; also NI, pp. 96–8. *Mutatis mutandis*, Harvey's considerations concerning the relationship between technological innovations and the struggle for locational advantage apply also to product innovations.

As Harvey notes, the spatial-temporal shifts in the overall dynamic of accumulation that absorb surplus capital generally ‘threaten . . . the values already fixed in place (embedded in the land) but not yet realized’. Hence,

The vast quantities of capital fixed in place act as a drag upon the capacity to realize a spatial fix elsewhere . . . If capital does move out, then it leaves behind a trail of devastation and devaluation; the deindustrializations experienced in the heartlands of capitalism . . . in the 1970s and 1980s are cases in point. If capital does not or cannot move . . . then overaccumulated capital stands to be devalued directly through the onset of a deflationary recession or depression.⁴⁰

Inertia and resistance

Either way, spatial fixes involve interregional volatility and the redirection of capital flows from one space to another. The redirection may occur smoothly, or it may involve what Harvey calls ‘switching crises’.⁴¹ Harvey does not spell out what, exactly, these crises are. The drift of his argument nonetheless seems to be that switching crises are moments of impasse that stem from resistance to the relocations involved in the spatio-temporal fixes that recurrently revolutionize the historical geography of capitalism. In part, resistance originates from the contradictory logic of capital accumulation itself. Indeed, ‘the more capitalism develops,’ argues Harvey, ‘the more it tends to succumb to the forces making for geographical inertia’:

The circulation of capital is increasingly imprisoned within immobile physical and social infrastructures which are crafted to support certain kinds of production . . . labour processes, distributional arrangements, consumption patterns, and so on. Increasing quantities of fixed capital . . . check uninhibited mobility . . . Territorial alliances, which often become increasingly powerful and more deeply entrenched, arise . . . to conserve privileges already won, to sustain investments already made, to keep a local compromise intact, and to protect itself from the chill winds of spatial competition . . . New spatial configurations cannot be achieved because regional devaluations are not allowed to run their course. The uneven geographical development of capitalism then assumes a form that is totally inconsistent with sustained accumulation either within the region or on a global scale.⁴²

⁴⁰ NI, p. 116.

⁴¹ NI, pp. 121–3; *Limits to Capital*, pp. 428–9.

⁴² *Limits to Capital*, pp. 428–29.

In part, however, the forces of geographical inertia may originate in resistance, not to economic change as such, but to the real or imagined political and social consequences of spatial fixes. Discussing such political resistance, Harvey focuses on China as the most promising site for an effective spatial fix to the ongoing overaccumulation crisis. Not only has China become the fastest growing attractor of foreign direct investment, with net inflows rising from \$5 billion in 1991 to around \$50 billion in 2002, but its internal market has been growing more rapidly than any other, with urban incomes rising at an annual rate of 11 per cent and rural incomes at a rate of 6 per cent. Even more dramatic in Harvey's view are the prospects for long-term infrastructural investment:

Since 1998, the Chinese have sought to absorb their vast labour surpluses . . . by debt-financed investment in huge mega-projects that dwarf the already huge Three Gorges dam. They are proposing a far more ambitious project (costing at least \$60 billion) to divert water from the Yangtze to the Yellow River. New subway systems and highways are being built in major cities, and 8,500 miles of new railroad are proposed to integrate the interior to the economically dynamic coastal zone . . . Urban infrastructures are everywhere being upgraded . . . This effort is far larger *in toto* than that which the United States undertook during the 1950s and 1960s, and has the potential to absorb surpluses of capital for several years to come.⁴³

Being largely deficit-financed, this massive production of new space entails the risk of a major fiscal crisis of the Chinese state. Nevertheless, assuming that such a crisis can be avoided or successfully weathered, this 'remarkable version' of spatio-temporal fix 'has global implications not only for absorbing overaccumulated capital, but also for shifting the balance of economic and political power to China as the regional hegemon and perhaps placing the Asian region, under Chinese leadership, in a much more competitive position vis-à-vis the United States.' It is this possibility that makes us resistance to a smooth spatial fix all the more likely, despite the fact that this process holds out the best prospect for a solution to the underlying overaccumulation crisis.⁴⁴

The association between spatial fixes and hegemonic shifts thus strengthens the Catch 22 that always confronts incumbent leading centres of

⁴³ NI, p. 123.

⁴⁴ NI, pp. 123–34.

capitalist development. The unconstrained development of new regions brings devaluation to these centres through intensified international competition. Constrained development abroad limits international competition, but blocks off opportunities for the profitable investment of surplus capital and so sparks internally generated devaluations.⁴⁵ If the competitively challenged centre is also a hegemonic centre, either outcome threatens to deflate not just the value of its assets but its power as well. Worse still, it may threaten the social stability of the challenged centre, because spatial fixes to overaccumulation crises always have a social dimension which affects their impetus, both positively and negatively.

Fin-de-siècle disorders?

This social dimension has been integral to Harvey's theory of the spatial fix from its earliest formulations. It was originally derived from Hegel's observation in *The Philosophy of Right* that bourgeois society appears to be incapable of solving through *internal* mechanisms the problems of social inequality and instability that arise from its tendency to overaccumulate wealth at one pole and deprivation at the other. A 'mature' civil society is thus driven to seek *external* solutions through foreign trade and colonial or imperial practices.⁴⁶ In *The New Imperialism*, Harvey supplements this observation with Arendt's contention that 'Hobbes's Commonwealth is a vacillating structure and must always provide itself with new props from outside; otherwise it would collapse overnight into the aimless, senseless chaos of the private interests from which it sprang.'⁴⁷

Harvey finds Arendt's proposition especially applicable to the United States. In this 'quite extraordinary multicultural immigrant society . . . a fierce competitive individualism . . . perpetually revolutionizes social, economic, and political life . . . [rendering] democracy chronically unstable.' The difficulty of achieving internal cohesion in such an ethnically mixed and intensely individualistic society produced the tradition that Richard Hofstadter described in the early 1960s as 'the paranoid style' of American politics—the tradition, that is, whereby fear of some 'other' (communism, socialism, anarchism, 'outside agitators' or, for the left, capitalist or state conspiracies) is essential to the creation of political

⁴⁵ *Limits to Capital*, p. 435.

⁴⁶ Hegel, *The Philosophy of Right* [1821], New York 1967, pp. 149–52; *Spaces of Capital*, ch. 14; *Limits to Capital*, pp. 414–5.

⁴⁷ *Origins of Totalitarianism*, p. 142.

solidarities. At times, 'the whole country appears so unruly as to be ungovernable'.⁴⁸ Despite (or because of) a booming economy and the disappearance of the Communist threat with the end of the Cold War, in Harvey's assessment the 1990s were such a time:

Competition was vicious, the avatars of the 'new economy' became millionaires overnight and flaunted their wealth, scams and fraudulent schemes proliferated, scandals (both real and imagined) were everywhere embraced with gusto, vicious rumours circulated about assassinations plotted in the White House, an attempt was made to impeach the president, talk-show hosts Howard Stern and Rush Limbaugh typified a media totally out of control, Los Angeles erupted in riots, Waco and Oklahoma symbolized a penchant for internal opposition and violence that had long remained latent, teenagers shot and killed their classmates in Columbine, irrational exuberance prevailed over common sense and corporate corruption of the political process was blatant. Civil society was, in short, far from civil . . . It seemed, as Arendt would put it, in the process of collapsing back into the aimless, senseless chaos of private interests.⁴⁹

Harvey suspects that part of George W. Bush's electoral appeal in 2000 'was his promise of providing a strong-minded and tough moral compass to a civil society spiralling out of control'. Be that as it may, September 11 'provided the impetus to break with the dissolute ways of the 1990s'. In this respect, the war on Iraq was no mere diversion from domestic difficulties: 'it was a grand opportunity to impose a new sense of social order at home and bring the commonwealth to heel'. Once again, the 'evil enemy without became the prime force through which to exorcize or tame the devils lurking within'.⁵⁰

These observations suggest that spatial fixes are constrained, not just by resistance to economic relocation and associated geopolitical realignments, but by resistance to social change as well. For both meanings of spatial fix have an inescapable social aspect. The literal fixing of capital in the form of ports, roads, airports, factories, schools etc., in and on the land, creates something more than a geographical landscape facilitating the accumulation of capital. It also brings into being a particular human habitat of social interaction and reproduction. And conversely, the metaphorical spatial fix for overaccumulation crises involves much

⁴⁸ NI, pp. 15–6, 49; Richard Hofstadter, *The Paranoid Style in American Politics and Other Essays* [1965], Cambridge, MA 1996.

⁴⁹ NI, pp. 16–7.

⁵⁰ NI, p. 17.

more than a devaluation of the capital fixed in land that is made obsolete by the creation of a new geographical landscape. It also involves a devastation of the human habitat embedded in the obsolescent landscape of capital accumulation.

As Karl Polanyi pointed out long ago, with special reference to the overaccumulation crisis of the late nineteenth and early twentieth centuries, devastations of this kind inevitably call forth the ‘self-protection of society’ in both progressive and reactionary political form, mobilized by forces seeking to slow down or reverse the relocation of economic activities and political power involved in the spatial fix.⁵¹ Alternatively, such mobilizations can pose a serious threat to the social legitimacy of the forces that embrace the capitalist logic of unconstrained relocation as a condition of the endless accumulation of capital. Either way, the self-protective instincts of social layers strengthen the forces of geographical inertia, making the resolution of the overaccumulation crisis still more problematic. There is nonetheless a possible way out of this impasse, namely, the use of financial means ‘to rid the system of overaccumulation by the visitation of crises of devaluation upon vulnerable territories’. Harvey calls the deployment of these means the ‘sinister and destructive side of spatio-temporal fixes to the overaccumulation problem’.⁵² Let us briefly examine what this involves.

C. Accumulation by dispossession

In discussing the absorption of surplus capital in the production of new space, Harvey points out that the conversion of unsold inventories and idle productive capacity into infrastructural investment depends crucially on the mediating role of financial and state institutions. ‘Surplus capital in shirts and shoes cannot be converted directly into an airport or research institute.’ But state and financial institutions have the capacity to generate credit, commensurate to the surplus capital locked into the production of shirts and shoes, and to offer it to agencies willing

⁵¹ Polanyi does not speak of spatial fixes or overaccumulation crises. Nevertheless, his emphasis on the opposition ‘habitation versus improvement’ conveys the same idea of a fundamental contradiction between the tendency of capital to relentlessly transform geographical landscapes on the one side, and the tendency of the communities embedded in those landscapes to resist such transformations on the other. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* [1944], Boston 1957, ch. 3.

⁵² NI, pp. 134–5.

to invest it in airports, research institutes or whatever other forms of infrastructural investment are involved in the production of new space. States also, of course, have the power of converting surplus capital into the production of new space through deficit financing, or through the allocation of tax revenues to infrastructural investments.⁵³

In the real world of capitalism, this constructive function of private and public finance is invariably intertwined with speculative booms and busts in both land and property markets and in government debt. Speculative excesses divert capital from trade and production and eventually meet their fate as devaluations. Nevertheless, the curtailment of speculation would have ‘equally invidious results from the standpoint of capitalism’:

The transformation of spatial configurations in the built environment would be held in check and the physical landscape necessary for future accumulation could not hope to materialize . . . Rampant speculation and unchecked appropriation, costly as they are for capital and life-sapping as they may be for labour, generate the chaotic ferment out of which new spatial configurations can grow.⁵⁴

As long as speculative excesses favour—rather than hamper—the emergence of new spatial configurations which enable trade and production to expand further than they could under the pre-existing ones, they are ‘necessary evils’ of an otherwise positive-sum game. This is how official rhetoric justified the speculative excesses and ‘irrational exuberance’ of the 1990s: unfettered spatial mobility of capital, it was claimed, was ultimately for the good of the expanded reproduction of the global economy, including its most vulnerable components. Underneath the official rhetoric, however, lay the more destructive reality of a negative-sum game that hampered rather than facilitated the emergence of new spatial configurations:

Like war in relation to diplomacy, finance capital intervention backed by state power frequently amounts to accumulation by other means. An unholy alliance between state powers and the predatory aspects of finance capital forms the cutting edge of a ‘vulture capitalism’ that is as much about cannibalistic practices and forced devaluations as it is about achieving harmonious global development.⁵⁵

⁵³ NI, p. 113; *Limits to Capital*, p. 404.

⁵⁴ *Limits to Capital*, p. 398; see also NI, pp. 131–2.

⁵⁵ NI, p. 136.

Harvey goes on to note that these ‘other means’ are what Marx, following Adam Smith, referred to as the means of ‘primitive’ or ‘original’ accumulation. He quotes approvingly Arendt’s observation that ‘the emergence of “superfluous” money . . . which could no longer find productive investment within the national borders’ created a situation in the late nineteenth and early twentieth centuries whereby Marx’s ‘original sin of simple robbery . . . had eventually to be repeated lest the motor of accumulation suddenly die down’. Since a similar situation appears to have emerged again in the late twentieth and early twenty-first centuries, Harvey advocates a ‘general re-evaluation of the continuous role and persistence of the predatory practices of “primitive” or “original” accumulation within the long historical geography of capital accumulation’. And since he finds it peculiar to call an ongoing process ‘primitive’ or ‘original’, he proposes to replace these terms with the concept of ‘accumulation by dispossession’.⁵⁶

Neoliberal dispossessions

Historically, accumulation by dispossession has taken many different forms, including the conversion of various forms of property rights (common, collective, state, etc.) into exclusive property rights; colonial, semi-colonial, neo-colonial and imperial appropriations of assets and natural resources; and the suppression of alternatives to the capitalistic use of human and natural resources. Although much has been contingent and haphazard in the *modus operandi* of these processes, finance capital and the credit system have been major levers of dispossession, while the states, with their monopolies of violence and definitions of legality, have been crucial protagonists. But whatever its manifestations, agencies and instruments:

What accumulation by dispossession does is to release a set of assets (including labour power) at very low (and in some instances zero) cost. Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use.⁵⁷

In Harvey’s view, the rise of neoliberal ideology and its associated politics of privatization since the late 1970s constitute the cutting edge of

⁵⁶ NI, pp. 142–4; Marx, *Capital*, vol. I, Moscow 1959, p. 713; Arendt, *Origins of Totalitarianism*, p. 148.

⁵⁷ NI, pp. 145–9.

the present phase of accumulation by dispossession. The collapse of the Soviet Union and the savage privatization carried out under the heading of 'shock therapy', as advised by the capitalist powers and the international financial institutions, was a major episode in the release at fire-sale prices of hitherto unavailable assets. And so was the 'internally driven' opening up of China and the major waves of privatization it entailed. Equally important, however, has been the release of devalued assets in other lower-income countries in the wake of the financial crises that have punctuated the liberalization of capital flows in the 1980s and 1990s.⁵⁸ Exemplary in this respect was the experience of the Asian crisis of 1997–98:

Financial crises have always caused transfers of ownership and power to those who keep their own assets intact and who are in a position to create credit, and the Asian crisis is no exception . . . there is no doubt that Western and Japanese corporations are the big winners . . . The combination of massive devaluations, IMF-pushed financial liberalization, and IMF-facilitated recovery may even precipitate the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to US owners in Latin America in the 1980s or in Mexico after 1994. One recalls the statement attributed to Andrew Mellon: 'In a depression, assets return to their rightful owners'.⁵⁹

There is always a danger, of course, that regional crises and place-based devaluations spin out of control, sparking a global collapse, or that they provoke a revolt against the system that is perceived to generate them. Even as it orchestrates the process to its own advantage, therefore, the hegemonic power must organize 'bail-outs' to keep global capital accumulation on track. The mixture of coercion and consent involved in such bail-outs varies considerably. It nonetheless reveals, concludes Harvey,

how hegemony gets constructed through financial mechanisms in such a way as to benefit the hegemon while leading the subaltern states on the supposedly golden path of capitalist development. The umbilical cord that ties together accumulation by dispossession and expanded reproduction is that given by finance capital and the institution of credit, backed, as ever, by state powers.⁶⁰

⁵⁸ NI, pp. 149–50; 156–61.

⁵⁹ Robert Wade and Frank Veneroso, 'The Asian Crisis: The High Debt Model versus the Wall Street–Treasury–IMF Complex', *NLR* 1/228, March–April 1998, quoted in NI, pp. 150–1.

⁶⁰ NI, pp. 151–2.

Like Harvey, Marx also emphasized the crucial role that finance and state institutions have played in linking accumulation by dispossession (his primitive accumulation) in different locales to the expanded reproduction of historical capitalism. Unlike Harvey, however, he focused exclusively on the role of national debts and the international credit system as the means of an invisible inter-capitalist cooperation, which ‘started’ capital accumulation over and over again across the space-time of the world capitalist system, from its inception through to his own day:

With the national debt arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. Thus the villainies of the Venetian thieving system formed one of the secret bases of the capital-wealth of Holland to whom Venice in her decadence lent large sums of money. So was it with Holland and England. By the beginning of the eighteenth century . . . Holland had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, [became] the lending out of enormous amounts of capital, especially to its great rival England. [And the] same thing is going on today between England and the United States.⁶¹

Marx never developed the theoretical implications of this historical observation. In spite of the considerable space dedicated to ‘money-dealing capital’ in the third volume of *Capital*, he never rescued national debts from their confinement to the mechanisms of an accumulation that is ‘not the result of the capitalist mode of production but its starting point’. And yet, in the above sequence what appears as a ‘starting point’ in an emerging centre (Holland, England, the United States) is at the same time the ‘result’ of long periods of capital accumulation (and eventual overaccumulation) in previously established centres (Venice, Holland, England). Moreover, although Marx does not say so explicitly, each emergent leading centre in his sequence consists of an agency of greater territorial scale and scope than its predecessors.⁶²

Anomalies of the current crisis

It follows that, in terms of Harvey’s conceptualization, Marx’s sequence describes a series of spatial fixes of increasing scale and scope which provide profitable outlets for the surplus capital that overaccumulates in

⁶¹ *Capital*, vol. 1, pp. 755–6.

⁶² *Long 20th Century*, p. 14; ‘Capitalism and World (Dis)Order’, pp. 264–7. We shall return to this point in Part II.

previously established capitalist centres and, simultaneously, reduce the need for accumulation by dispossession in the newly emerging centres. Were this tendency still in force today, the us and other mature centres of capital accumulation would be lending out 'enormous amounts of capital' to currently emerging centres, first and foremost China, and the need for a new round of accumulation by dispossession would be correspondingly reduced. Harvey does note the rapid increase of foreign direct investment into China. Nevertheless, in resorting to the notion of accumulation by dispossession, his emphasis is on two related anomalies of present tendencies.

The first anomaly is that the us is borrowing rather than lending enormous amounts of capital. If we take the deficit in the current account of the us balance of payments as a rough indicator, it is presently absorbing capital from the rest of the world to the tune of over \$2 billion a day. Much of this capital comes from other mature centres of capital accumulation, especially Japan. But a not insignificant share comes from emerging centres, especially China. This first anomaly signals a blockage in the mechanisms that, in the past, facilitated the absorption of surplus capital in spatial fixes of increasing scale and scope. As we have seen, Harvey traces this to a strengthening of the economic, political and social forces of geographical inertia. But whatever its origins, by aggravating instead of easing the overaccumulation of capital in the mature centres, the blockage generates a second anomaly: an increase, rather than decrease, in the reliance of capital on accumulation by dispossession. Hence the need, to paraphrase Arendt, to repeat once again 'the original sin of simple robbery' lest the motor of capital accumulation suddenly die down.⁶³

Harvey is not very explicit on the connection between this revival of accumulation by dispossession and Washington's adoption of the New American Century programme. He does nonetheless suggest that the new imperial project constitutes both a departure from and a continuation by other means of accumulation by dispossession as practised in the 1980s and 1990s. The neo-conservatism that lies behind this project, we are told, 'overlaps neoliberalism . . . in the belief that free markets in both commodities and capital contain all that is necessary to deliver freedom and well-being to all and sundry'. But 'its primary objective is

⁶³ NI, p. 182.

the establishment of and respect for order, both internally and upon the world stage.’ This involves ‘the construction of a hierarchy of power that is both secure and clear’. Should the operation of free markets threaten to undermine order and hierarchy, neo-conservatives were prepared to transform the low-intensity warfare waged around the globe under neoliberalism into a dramatic confrontation, supposedly capable of eliminating the threat once and for all.⁶⁴

The neo-conservative departure from the neoliberalism of the previous Administration was famously signalled by a change of power relations among branches of the us government. As Harvey notes, ‘whereas the key positions in the Clinton administration were in the Treasury (where Rubin and Summers ruled supreme), the new Bush administration [looked] to its defence experts—Cheney, Rumsfeld, Wolfowitz and Powell—to shape international policy’.⁶⁵ But it was only after the neo-conservatives had their ‘Pearl Harbor’ of September 11 that the departure became fully evident. As we have seen, Harvey attributes multiple potential functions to the War on Terror and the invasion of Iraq: to ensure us control over the supply of oil to economic and strategic competitors; to prevent the formation of a Eurasian power bloc; to impose a new sense of social order at home by breaking with the dissolute ways of the 1990s. In the concluding chapter of *The New Imperialism* he also suggests that ‘the dispossession of Iraqi oil’ could mark the beginning of a continuation by military means of accumulation by dispossession.⁶⁶ But he does not elaborate on this point, turning instead to the ‘big and open question’ of whether the new imperial project had any chances of success.

Outcomes of neo-imperialism

Harvey’s answer to this question is that there was ‘more than a little utopianism’ to the neo-conservative project, for several reasons. First, instead of creating political solidarity on the home front, the project was highly divisive from the start. The climate of nationalism, patriotism and suppression of dissent at all levels, particularly in the media, that ensued from the declaration of the War on Terror and the invasion of Iraq, did succeed in creating widespread popular support for the war effort and for Bush himself. Nevertheless, opposition to the war and to the severe curtailment of civil liberties that went with it was silenced rather than

⁶⁴ NI, pp. 190, 201.

⁶⁵ NI, p. 192.

⁶⁶ NI, pp. 201–2.

eliminated. Moreover, even within the Bush Administration and the military there were serious misgivings concerning the feasibility, costs and risks of the course of action advocated by the neo-conservatives. Should anything go wrong, especially on the battlefields, divisions would reappear, both within the government and among the electorate, shifting the balance of forces against the neo-conservative bloc.⁶⁷

Second, the neo-conservative project amounted to a rejection of hegemony through consent and moral leadership in favour of domination through coercion. As such it was bound to alienate even us allies. Instead of preventing the formation of a Eurasian power bloc, it could be expected to bring about an alliance between Germany, France, Russia and China. If pressed on beyond Iraq into Iran and Syria, the us imperial project would lose the support even of the staunchest allies, including Britain. In any event, would-be allies had to contend with the kind of popular opposition that surfaced in the remarkable worldwide turnout at the anti-war demonstrations of February 15, 2003.⁶⁸

Third, since the new imperial project was a continuation by old and new means of accumulation by dispossession, it could be expected to increase rather than decrease the ferment that has fuelled resistance against dispossession, especially in the global South. Moreover, the revival of the paranoid style of us politics along racist lines would make it harder to hold in check the slide of this resistance into 'nationalism and exclusionary politics as a means to defend against neoliberal predation'. Worse still, the likely failure of the neo-conservative project to conjure an acceptable solution to the Arab–Israeli conflict, or to turn Iraq into a model of democracy and prosperity, meant that opposition to the project would be strongest in the Arab world—the region where success mattered most.⁶⁹

Finally, the specific territorial logic that the neo-conservative imperial project sought to impose was deeply inconsistent with the capitalistic logic of power. Although military expenditures could boost the us economy in the short run, their more lasting effects would be greater us foreign indebtedness and therefore greater vulnerability to capital flight. The risks for finance capital in continuing to underwrite the us national debt would increase correspondingly, all the more so if investment in

⁶⁷ NI, pp. 199–200, 211–2.

⁶⁸ NI, pp. 200–1.

⁶⁹ NI, pp. 202–4.

China and other emerging centres of capital accumulation offered more profitable outlets for surplus capital than expansion of us ‘unproductive consumption’ in the military and private sector. This could lead capital to seek ‘regime change in Washington as necessary to its own survival . . . bringing the neo-conservative version of imperialism to a crushing halt’. If this did not happen, sooner or later a flight of capital would force the us economy into a ‘structural adjustment’ that would entail ‘an unheard-of degree of austerity the likes of which have not been seen since the Great Depression of the 1930s’.⁷⁰

Harvey goes on to speculate that, under these circumstances, the United States ‘would be sorely tempted to use its power over oil to hold back China, sparking a geopolitical conflict at the very minimum in central Asia and perhaps spreading into a more global conflict.’ The only realistic alternative to such a disastrous outcome, in Harvey’s view, is some sort of ‘new “New Deal”’ led by the United States and Europe, both domestically and internationally:

This means liberating the logic of capital . . . from its neoliberal chains, reformulating state powers along much more interventionist and redistributive lines, curbing the speculative powers of finance capital, and decentralizing or democratically controlling the overwhelming power of oligopolies and monopolies (in particular . . . the military–industrial complex) to dictate everything from terms of international trade to what we see, read, and hear in the media.

This alternative project resembles the ‘ultra-imperialism’ of cooperating capitalist powers envisaged long ago by Karl Kautsky and, as such, has its own negative connotations and consequences. It does nonetheless ‘seem to propose a far less violent and far more benevolent imperial trajectory than the raw militaristic imperialism currently offered up by the neo-conservative movement in the United States’.⁷¹

II. FOUNDERING OF THE NEO-CONSERVATIVE PROJECT

In the two years since *The New Imperialism* went to press, the unravelling of the neo-conservative imperial project has transformed us hegemony into what, following Guha, we earlier called domination without hegemony. As Harvey anticipated, the invasion of Iraq alienated even us allies;

⁷⁰ NI, pp. 204–9.

⁷¹ NI, pp. 209–11.

to a far greater extent than he or anybody else had expected, the blitzkrieg on Baghdad was followed by a long drawn-out and bloody struggle that has made the installation of a us-friendly regime in Iraq an increasingly fraught and costly project. And yet, such failures abroad did not result in a debacle of the neo-conservative project at home. Divisions within the government and among the electorate did resurface, but the balance of forces did not shift against the neo-conservative bloc. On the contrary, to the chagrin of much of the rest of the world, the elections of November 2004 returned Bush to the White House and have for now consolidated the hold of the neo-conservative bloc on all the branches of the us government.

In what follows, I will sketch the basic facts of us 'domination without hegemony' as it has emerged in the wake of the invasion of Iraq. I focus first on the double failure of the invasion to end the so-called Vietnam syndrome and to lay the foundations of a new American Century. I then turn to the faltering us competitive position in the global economy and argue that the neo-conservative imperial project constitutes a far more fundamental departure from the neoliberalism of the 1980s and 1990s than Harvey concedes. I conclude by suggesting that the most important unintended consequence of the Iraqi adventure may well turn out to be an acceleration and consolidation of the tendency towards the re-centring of the global political economy on East Asia and, within East Asia, on China.

A. Persistence of the Vietnam syndrome

Within six months of the official declaration of the end of hostilities, many commentators were observing that, although Iraq is not Vietnam, the ever more frequent use of images like 'quagmire', 'attrition', 'credibility gap', 'Iraqification' made the current debate seem to be 'almost as much about Vietnam as about Iraq'.⁷² In Iraq, as in Vietnam, increasing us difficulties in overcoming the resistance of a comparatively insignificant guerrilla adversary were running the risk of endangering the credibility of us military might in the world at large. But precisely because Iraq is not Vietnam, and 2003 is not 1968, I shall contend that failure in Iraq poses an even more serious challenge to us power than did failure in Vietnam.

⁷² Craig Whitney, *New York Times*, 9 November 2003.

As argued elsewhere, the Vietnam War was the central event of what we may call the ‘signal crisis’ of us hegemony.⁷³ In the 1980s and especially the 1990s, however, the signal crisis of 1968–73 gave way to a remarkable resurgence of American wealth, power and prestige—a *belle époque* wholly comparable to that enjoyed by Britain a century before. The resurgence reached its apogee after the collapse of the ussr, when the us began to present itself—and to be widely perceived—as the greatest military power the world had ever seen. Behind this façade, however, there lurked the problem that the verdict of Vietnam had never really been reversed, nor the actual credibility of us military might fully restored.

The long series of military confrontations the United States engaged in after its defeat in Vietnam were remarkable for their careful avoidance of the conditions that had led to that debacle. Exemplary in this respect was the us flight from Lebanon, after the 1983 bombing of the Marine compound in Beirut killed 241 Americans. From then on, until the collapse of the ussr, the United States either fought wars by proxy (Nicaragua, Cambodia, Angola, Afghanistan; supporting Iraq in the war against Iran),⁷⁴ or against militarily insignificant enemies (Grenada, Panama), or from the air, where us high-tech had an absolute advantage (Libya).⁷⁵

At the same time, the us escalated the armament race with the ussr—primarily, though not exclusively, through the Strategic Defense Initiative—well beyond what Moscow could afford economically. The escalation trapped the ussr into a double confrontation: in Afghanistan, where its high-tech military apparatus encountered the same difficulties

⁷³ *Long 20th Century*, pp. 215–7, 300, 320–2; ‘Social and Political Economy’, pp. 61–2.

⁷⁴ In March 1984, undeterred by Saddam Hussein’s atrocities, Rumsfeld flew to Baghdad as Reagan’s envoy on the very day that Iraq launched a chemical weapons attack on Iran. Four years later, while Hussein was razing hundreds of villages in northern Iraq and killing thousands of Kurds, Washington offered him \$500 million in subsidies to buy us farm products. The following year, the us government doubled the subsidy to \$1 billion and provided him with high-quality germ seed for anthrax and dual-use material that could be used to manufacture chemical and biological weapons. See Seumas Milne, *Guardian*, 27 September 2002; and Arundhati Roy, *Guardian*, 27 September 2002.

⁷⁵ The fact that ‘Third World Rollback’, as the Reagan Doctrine that inspired these confrontations was sometimes called, eventually backfired does not mean that it did not inflict unspeakable suffering on the countries singled out. To give just one example, according to UN estimates, 300,000 children died directly or indirectly as a result of the prolongation of the Angolan civil war by the murderous Unita organization with us support.

that had led to the defeat of the us in Vietnam, and in the armaments race, where the United States could mobilize financial resources wholly beyond the Soviet reach. The Soviet Union's eventual defeat, however, did nothing to dispose of the Vietnam syndrome. To the extent that this was caused by us power, it was due not to American military might but to superior financial capabilities. And to the extent that it had military origins, it confirmed rather than reversed the Vietnam verdict. It showed that, in Afghanistan no less than in Vietnam, the high-tech military apparatuses controlled by the Cold War superpowers were ineffectual in policing the Third World on the ground, however well they had succeeded in reproducing the 'balance of terror'.

The collapse of the USSR nonetheless created the opportunity to test the widely held assumption that, without Soviet assistance, the Vietnamese could not have defeated the United States, just as the Afghani warlords and the Mujahideen could not have defeated the USSR without us aid. Moreover, the subjugation of Moscow cleared the ground for the mobilization of the UN Security Council to legitimate us police actions to an extent that had not been possible since the Korean War. Saddam Hussein's invasion of Kuwait in 1990 immediately created the ideal opportunity for such a mobilization, which the United States promptly seized, putting on a televised show of its high-tech firepower.⁷⁶ Nevertheless, as John McCain has pointed out, victory in the first Gulf War 'did not end the hold of the Vietnam syndrome over [the American] national consciousness'—in his view, because Saddam Hussein was not removed from power.⁷⁷ The first Gulf War, other commentators noted, 'was intended to be everything that Vietnam was not. Instead of a long, gradual use of force the goal was to overpower the enemy and quickly withdraw.'⁷⁸ Known as the Powell Doctrine, this strategy was the culmination of us endeavours not to reverse so much as to avoid another Vietnam verdict.

⁷⁶ According to General Anthony Zinni, Desert Storm in 1991 'left the impression that the terrible mess that awaits us abroad can somehow be overcome by good, clean soldiering, just like in World War Two. In reality, the only reason Desert Storm worked was because we managed to go up against the only jerk on the planet who was stupid enough to challenge us to refight World War Two.' Tom Clancy, with General Zinni and Tony Koltz, *Battle Ready*, New York 2004.

⁷⁷ Quoted in Whitney, *New York Times*, 9 November 2003. A similar view undoubtedly prevailed among the promoters of the New American Century. Wolfowitz, for example, had criticized the Bush Senior Administration, in which he served as an undersecretary of defence, for failing to 'deal with Saddam' after the Gulf War: *New York Times*, 18 May 2004.

⁷⁸ Michael Gordon, *New York Times*, 18 March 2003.

An attempt to test the us military's ability to police the Third World on the ground came soon after the first Gulf War, under the cover of a 'humanitarian' mission in Somalia. It failed abysmally: televised footage of a dead American being pulled through the streets of Mogadishu revived the Vietnam syndrome at home and led to the immediate withdrawal of us troops. But under Clinton the Powell Doctrine became an increasing embarrassment, leading Secretary of State Madeleine Albright to ask her famous question: 'What's the point of having this great army you're always talking about if we can't use it?'

The overriding objective of the 'humanitarian' missions in Bosnia and against what remained of Yugoslavia was precisely to show that there was a point in 'having this great army'. The Kosovo war was also meant to demonstrate that prior UN endorsement of the police actions the us chose to undertake was welcome but dispensable. The more reliable NATO endorsement was enough. Militarily, however, all the Kosovo war could prove was what everybody already knew: that Washington has the technological capabilities to exterminate any country it chooses. It failed to demonstrate that the us government was willing to risk the lives of American citizens in overseas police actions that made little sense to the us public.

Mesopotamian testing ground

On the eve of 9/11, the unwillingness to take such risks still constituted the clay feet of the us military colossus. The shock of the attacks on the World Trade Centre and Pentagon changed the situation, providing a *casus belli* that made sense to the American public. But even in the Afghanistan war, which enjoyed widespread domestic and international support, the Bush Administration showed little inclination to risk American casualties, even if this reluctance meant compromising the avowed us war aims of getting bin Laden 'dead or alive'. Instead, Afghans did most of the fighting on the ground, leaving a *Washington Post* commentator to jeer that:

America has fought this war on the cheap. The response to the worst attack on American soil amounted to the hiring of Hessians. The United States would not even commit troops to sealing the border with Pakistan. Who knows how many of bin Laden's fighters got through? Who knows if bin Laden himself was among them?⁷⁹

⁷⁹ Richard Cohen, *International Herald Tribune*, 9 January 2002.

Incompetence and ideology-driven irrationality are common and sometimes plausible explanations of the many instances of puzzling behaviour on the part of the Bush Administration. Fighting the war in Afghanistan ‘on the cheap’ and risking no casualties in the hunt for bin Laden was nonetheless a perfectly rational choice, if the objective of the War on Terror was not merely capturing terrorists but remaking the political geography of West Asia in the pursuit of a new American Century. From the standpoint of this broader objective, Afghanistan was a most unpropitious place to test the greater disposition of Americans to suffer casualties in foreign wars, after 9/11. It was quite reasonable to suppose that ‘finishing the job’ in Afghanistan would cost more us lives, and would bring lower political and economic returns per casualty, than moving on and conquering Iraq.

The successful blitzkrieg on Baghdad initially seemed to bear out these expectations, with Iraqi armed forces offering virtually no resistance. By June 2003, however, us casualties began to increase, slowly but relentlessly. Worse still, political and economic returns per casualty declined precipitously, as us plans to remake Iraq to suit American interests clashed with realities on the ground and had to be revised, downsized or abandoned. Nevertheless, on this occasion Washington seemed determined to ‘finish the job’, even though it kept redefining the nature of what the ‘job’ was. A year after the invasion, in the midst of growing difficulties, Bush launched the slogan ‘We must stay the course in Iraq’, despite the open criticism of his generals.⁸⁰ Eight months later, in December 2004, Bush for the first time acknowledged that the Iraqi trainees his Administration had been counting on to take over basic security tasks were not up to the job. The implication was that the us government had no exit strategy for its own troops. The following day an explosion ripped through the dining tent on a us military base near Mosul, killing over twenty and injuring three times as many. As an editorial in the *International Herald Tribune* lamented: ‘Some 21 months after the American invasion, us military forces remain essentially alone in battling what seems to be a growing insurgency, with no clear prospect of decisive success any time in the foreseeable future.’⁸¹

⁸⁰ ‘The course’, retorted former CENTCOM commander Gen. Zinni, ‘is headed over Niagara Falls’, while the active-duty commander of the 82nd Airborne, Gen. Charles Swannack allowed that ‘strategically’ the us was losing the war. Chalmers Johnson, *History News Network*, 14 June 2004, <http://hnn.us/>.

⁸¹ *International Herald Tribune*, 23 December 2004.

The problem, in the words of one conservative defence expert, was that while the United States was expecting conventional formations, 'the enemy was planning for elusive and unconventional operations'. As a result: 'What looked initially like a big conventional victory looks like a military challenge for which we have no good response. This is really a serious problem because the whole world can see the pattern of Vietnam and Somalia in Iraq now.'⁸²

In reality the problem the us faces in Iraq could be far more serious than the one it faced in Vietnam. The situation of political blockage is similar. Then, Washington had felt unable to bring the war to an end long after its futility had become evident because withdrawal, in Nixon's words, would show the United States to be 'a pitiful helpless giant', and so inspire 'totalitarianism and anarchy throughout the world'.⁸³ The loss of power that the us would face from an inability to carry out its will against Iraqi resistance, however, would be far greater and less remediable than that which it experienced from defeat in Vietnam.

The main reason is not us dependence on West Asian oil.⁸⁴ Rather, as previously noted, it is that Iraq is not Vietnam, and 2003 is not 1968. In purely military terms, the Iraqi insurgents, unlike the Vietnamese, do not field heavily-armoured vehicles, nor do they have long experience of

⁸² Lee Thompson, Lexington Institute, quoted in *Boston Globe*, 11 October 2004. As Seymour Hersh has documented, Hussein had planned an unconventional insurgency as early as 2001, when George W. Bush's election had brought into office many of the officials who during and after the first Gulf War had advocated regime change in Baghdad. Hersh, 'The Stovepipe', *New Yorker*, 27 October 2003, and *Chain of Command: The Road from 9/11 to Abu Ghraib*, New York 2004.

⁸³ Cited in William Pfaff, *International Herald Tribune*, 24–25 July 2004. In a more colourful formulation, Saudi Arabia's Arab News described us military power in the wake of the Abu Ghraib disclosures as 'a behemoth with the response speed of a muscle-bound ox and the limited understanding of a mouse' (*Washington Post*, 5 May 2004). The image is reminiscent of the 'ghastly metaphor' with which Mann illustrated his prescient assessment that the 'American Empire will turn out to be a military giant, a back-seat economic driver, a political schizophrenic and an ideological phantom. The result is a disturbed, misshapen monster stumbling clumsily across the world': *Incoherent Empire*, p. 13.

⁸⁴ *Pace* George Soros: 'Having invaded Iraq, we cannot extricate ourselves. Domestic pressure to withdraw is likely to build, as in the Vietnam war, but withdrawing would inflict irreparable damage on our standing in the world. In this respect, Iraq is worse than Vietnam because of our dependence on Middle Eastern oil'. *Guardian*, 26 January 2004.

guerrilla warfare in a favourable natural environment, or enjoy the support of a superpower like the USSR. In these and other respects they are a far less formidable adversary than the Vietnamese. Furthermore, during the three decades that separate the American withdrawal from Vietnam and the invasion of Iraq the US military underwent a fundamental restructuring, aimed specifically at reversing the Vietnam verdict. This 'professionalization' of the armed forces was intended both to improve their combat-readiness and simultaneously to free them from the constraints that a constant turnover of civilian-soldiers and temporary officers imposed on military action and discipline. Combined with the extraordinary technological improvements in US weaponry that occurred in the same thirty-year period, the restructuring turned the US military apparatus into a far more lethal force by 2003 than it had been at the time of the Vietnam War.

In short, the disparity of forces between the US invaders and the local resistance in Iraq in 2003 has been incomparably greater than in Vietnam. This is why the Bush Administration hoped the invasion of Iraq would reverse the Vietnam verdict; but it is also the reason why failure to do so would constitute a far greater blow to the credibility of US military might than defeat in Indo-China. If the Powell Doctrine had raised the issue of what the point was of having a great army if it could not be used, the Iraqi quagmire, as Andrew Bacevich has noted, raised a far more troubling question: 'What's the point of using this great army if the result is Fallujah, Najaf and Karbala?'⁸⁵

Declining influence

To be sure, whatever the outcome of the Iraqi war, the United States will remain the world's dominant military power for some time to come. But the chances are that, while its difficulties in Vietnam precipitated the 'signal crisis' of US hegemony, in retrospect US difficulties in Iraq will be seen as having precipitated its 'terminal crisis'. This crisis has long been in the making, and was bound to come, sooner or later, in one form or another, regardless of the actions of the Bush or any other administration. But the particular form in which it is now occurring has been determined by the decision to invade Iraq in the hope that an easy

⁸⁵ Andrew Bacevich, 'A Modern Major General', *NLR* 29, September–October 2004, p. 132.

victory would reverse the Vietnam verdict and lay the foundations of a new American Century.

As previously noted, Clinton's Kosovo War was meant to demonstrate, among other things, that UN support for US police actions backed by NATO was dispensable. Bush's Iraq War was now meant to demonstrate that even NATO was dispensable. The assumption, in the words of one neo-conservative foreign policy expert was that:

In the past 500 years or more, no greater gap had ever existed between the no. 1 and the no. 2 power in the world. Given this American domination, [the Bush Administration] believed that it was enough to express the American national interest firmly and everyone would accommodate themselves.⁸⁶

As it turned out, almost no one that mattered did. Except for Britain, increasingly behaving like the Union's fifty-first state, and a pitiful 'coalition of the willing',⁸⁷ the rest of the world rejected American leadership to an extent that had no precedent in the annals of US hegemony. To be sure, many foreign critics of the invasion of Iraq found little to rejoice over in the US predicament there. A senior adviser at the French Institute for International Relations explained:

When the US finds itself bogged down abroad, it poses a big challenge to the rest of the world. If America simply pulled out now, other countries would find themselves in the strange position of having to put pressure on the Americans to stay, having previously begged them not to risk invasion without a United Nations resolution. In the aftermath of a rapid withdrawal, the focus of international concern would quickly switch from the perils of US global domination, to the dangers of a world deprived of US international engagement. The problem is that if the present strategy in Iraq does not really work, there is no convincing alternative. It is unlikely that sending more US troops or handing over power to the Iraqis would make a serious difference. America is in a mess, but so are we.⁸⁸

⁸⁶ Norman Ornstein, American Enterprise Institute, quoted in Roger Cohen, *New York Times*, 12 October 2004.

⁸⁷ Of the 28 allied countries that still had troops in Iraq in December 2004, one commentator reported 'only eight have more than 500. Most are there as window dressing. And because of language and equipment difficulties, some contingents—like Macedonia's 28 or Kazakhstan's 29—may be more trouble than they are worth': Nicholas Kristof, *New York Times*, 11 December 2004. Since then, one of the countries with more than 500 troops, Ukraine, has announced its withdrawal.

⁸⁸ Dominique Moisi, *Financial Times*, 14 November 2003.

Reasoning along these lines probably motivated the unanimous UN Security Council resolution of October 16, 2003 that provided the US-led occupation with some juridical legitimacy and called on the world's governments to lend it their support. Juridical legitimacy as such, however, mattered to the US primarily, if not exclusively, as a means of extracting resources from other states to cover the escalating human and financial costs of the Iraqi occupation. Indeed, the main purpose of rushing the resolution through the UN Security Council was to ensure the success of the 'donors conference' that the United States had convened in Madrid for the following week—the poor results of which (less than \$5bn pledged, compared to the \$54bn extracted for the First Gulf War) provided a good measure of the deflation US power had experienced as a result of its transformation from hegemony into sheer domination.

An even better measure was the decline of US influence in the West Asian region, whose political geography the invasion of Iraq was supposed to remake to suit American interests and values. By the spring of 2004, the problems in Iraq had deprived of all practical significance the issue of how the United States would use the occupation, leaving Friedman to lament that:

We are in danger of losing something much more important than just the war in Iraq. We are in danger of losing America as an instrument of moral authority and inspiration in the world. I have never known a time in my life when America and its president were more hated around the world than today . . . The war on terrorism is a war of ideas, and to have any chance of winning we must maintain the credibility of our ideas . . . We cannot win a war of ideas against [Al-Qaeda] by ourselves. Only Arabs and Muslims can . . . But it is hard to partner someone when you become so radioactive no one wants to stand next to you.⁸⁹

Indeed, the US had become so 'radioactive' that plans to promote a raft of cosmetic political reforms in the so-called Greater Middle East had to be scrapped. When in February 2004 an Arabic newspaper published a draft of the Bush Administration's call for the world's wealthiest nations to press for change in the region, several Arab leaders erupted in anger, with even Mubarak calling the plan 'delusional'; the Administration quickly withdrew it. A few months later, Washington tried to use the tools of 'soft power' by sponsoring a multilateral agenda based on a UN report on human development in the Arab world at the G8 summit meeting on

⁸⁹ *New York Times*, 6 May 2004.

Sea Island, Georgia. The drafters of the report, however, were harshly critical of the initiative, pointing out that the us had little credibility in the Arab world and that, the more it associated itself with the UN development report, the more it undermined the authority of their work. By December 2004, when Secretary of State Colin Powell arrived at a summit meeting in Morocco intended to promote democracy across the Arab world, the us appeared to have given up trying to take the lead. Arab leaders, noted an American official, are 'willing to take the aid, but they are not willing to carry out the reforms'.⁹⁰

The problem for the us was not just the widespread perception among Arabs and Muslims that the invasion of Iraq was aimed at strengthening Israel's hand vis-à-vis Palestinian resistance and the Arab world in general, nor their resentment at the larger-scale reproduction in Iraq of the kind of coercive domination that Israel had pioneered in the Palestinian territories: the 'striking symmetry in military tactics'; the 'similar inattention to the plight of the victims'; and the 'excessive solicitude towards the misfortunes of the aggressors'.⁹¹ The problem was also—and especially—the perception among the ruling groups of the Arab and Muslim world that subservience to the us had higher costs and risks than defiance. While difficulties in Iraq made us threats to use military force against other Muslim countries mostly empty, the state that had gained most leverage from the war in Iraq was Iran, itself next on the list of us targets for regime change in the West Asian region:

The United States has destroyed Iran's arch enemy, while itself doing great damage to its own credibility in the region; Iran's own political allies in Iraq, among Kurds and Shi'a, are integrated into the new government structure and have never been stronger; and the country is now poised to play a major, if not decisive, role in the formation of any new Iraqi political and social system. Iran . . . is not unhappy to see the Americans bogged down [in Iraq] for a lengthy period, at considerable cost. It is delighted that, for the first time in the politics of any Arab country, the Shi'a community . . . has now acquired public, legitimate, internationally recognized status.⁹²

⁹⁰ Joel Brinkley, *New York Times*, 5 December 2004; François Heisbourg, *International Herald Tribune*, 23 March 2004.

⁹¹ In the months before the war, us and Israeli officials expressed quite openly the hope that a swift us victory over Iraq would bolster the safety and security of Israel by demonstrating to Arab leaders that defiance did not pay. For a good selection of statements to this effect, see Sukumar Muralidharan, 'Israel: An Equal Partner in Occupation of Iraq', *Economic and Political Weekly*, 9 October 2004.

⁹² Fred Halliday, 'America and Arabia after Saddam', *openDemocracy*, 13 May 2004.

As us and Iraqi officials acknowledge, Shi'ite dominance in Iraq, coupled with Shi'ite rule in Iran, would be particularly threatening to Sunni-ruled states that border Iraq and down the Persian Gulf, carrying the threat of increasing unrest among long suppressed Shi'ite populations. 'If Iraq goes Islamic Republic,' warned King Abdullah of Jordan, 'we've opened ourselves to a whole set of new problems that will not be limited to the borders of Iraq.'⁹³

It is hard to tell what the eventual outcome of the us invasion of Iraq will be in the wider region. Even the Iranian 'victory' may prove temporary, given the growing atrophy and unpopularity of the Ayatollah regime and the possibility of a 'last hurrah' of the neo-conservative project.⁹⁴ The only safe bet is that, whatever the outcome, it will bear no resemblance to the blueprint that drove the us into Iraq. Far from being the opening act of a new American Century, it will probably be the closing act of the first and only one, the 'long' twentieth century.

B. Strange death of the globalization project

The idea that we may be witnessing the terminal crisis of us hegemony becomes more compelling when we turn to the impact of the Iraq War on the us's central role in the global political economy. As Harvey underscored, the objectives of the neo-conservative imperial project, both at home and on the world stage, were only in part consistent with neoliberal proclamations of belief in allegedly self-regulating markets. Should the operation of free markets threaten to undermine us centrality, neo-conservatives were prepared to transform the low-intensity warfare waged around the globe under neoliberalism into a dramatic confrontation,

⁹³ Quoted in Roula Khalaf, *Financial Times*, 18–19 December 2004.

⁹⁴ According to Seymour Hersh, the deteriorating security situation in Iraq has not led the Bush Administration to reconsider its basic long-range policy goal in West Asia. On the contrary, 'Bush's reelection is regarded within the Administration as evidence of America's support for the decision to go to war. It has reaffirmed the position of the neo-conservatives in the Pentagon's civilian leadership who advocated the invasion.' More worryingly for Iran, a former high-level intelligence official told Hersh, 'Iraq is just one campaign. The Bush Administration is looking at this as a huge war zone. Next, we're going to have the Iranian campaign. We've declared war and the bad guys, wherever they are, are the enemy. This is the last hurrah—we've got four years, and want to come out of this saying we won the war on terrorism.' Hersh, 'The Coming Wars: What the Pentagon Can Now Do in Secret', *New Yorker*, 24 and 31 January 2005.

capable of eliminating the threat once and for all. The invasion of Iraq was meant to be such a confrontation: a first tactical move in a longer-term strategy aimed at using military might to establish us control over the global oil spigot, and thus over the global economy, for another fifty years or more.

The unexpectedly disastrous results of the Iraqi invasion raise the question of what was so threatening to us power in the outcome of the ‘globalization project’ of the 1980s and 1990s as to drive the neo-conservatives into such a risky adventure. Had not the Washington-sponsored liberalization of world trade and capital movements resulted in a major reflation of American power after the multiple crises of the 1970s? Was not reliance on the verdict of a us-centred and us-regulated global market, supplemented by a prudent use of low-intensity warfare, the best guarantee of the reproduction of American centrality in the global political economy?

For all its free-market rhetoric, the Bush Administration was never as enthusiastic as the Clinton Administration about the process of multi-lateral liberalization 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 President Bush’s speeches. According to a senior presidential aide, the word ‘makes him uncomfortable’. Speaking in December 2003, as the Bush Administration was being fined by the wto for its 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 globalization sounds like the creation of a lot of rules that may restrict the president’s choices, that dilute American influence.’⁹⁵

The Administration’s attempt to set itself free from the constraints that globalization imposed on us power has been most evident in the financial sphere. Niall Ferguson, contrasting the financial position of

⁹⁵ *New York Times*, 7 December 2003. See also Chalmers Johnson, *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic*, New York 2004. The Bush Administration has largely switched from multilateral to bilateral free-trade agreements. The only multilateral negotiation it supported—the new global trade round initiated at Doha, shortly after the attacks of 9/11—broke up spectacularly two years later at Cancún, in large part over us and European farm subsidies.

the United States with that of Britain a century earlier, has pointed out that, in Britain's case, hegemony 'also meant *hegemony*'. As the world's banker, Britain in its imperial heyday 'never had to worry about a run on the pound', whereas the us, as it 'overthrows "rogue regimes"', first in Afghanistan and now in Iraq, is the world's biggest debtor'. This condition is the result of ever-larger deficits in the current account of the us balance of payments, totalling nearly \$3 trillion since 1982 and surpassing \$1.5 billion a day at the time of the invasion of Iraq.

Thus President Bush's vision of a world recast by military force to suit American tastes has a piquant corollary: the military effort involved will be (unwillingly) financed by the Europeans—including the much reviled French—and the Japanese. Does that not give them just a little leverage over American policy, on the principle that he who pays the piper calls the tune? Balzac once said that if a debtor was big enough then he had power over his creditors; the fatal thing was to be a small debtor. It seems that Mr. Bush and his men have taken this lesson to heart.⁹⁶

In fact, it was not Europeans who were the main financiers of the huge us current-account deficit, although European private investment did play a major role in financing the us deficit in the closing years of the new-economy financial bubble. By far the most important financiers of the us current-account deficits have been East Asian governments, who have engaged in massive purchases of us government securities and in building up dollar-denominated foreign exchange reserves—first and foremost the Japanese but, to an increasingly significant extent, the Chinese as well.⁹⁷

⁹⁶ Niall Ferguson, *New York Times*, 20 April 2003. The argument is developed further in Ferguson, *Colossus: The Price of America's Empire*, New York 2004, pp. 261–95.

⁹⁷ Whereas 'foreign investors in the 1990s poured trillions of dollars into American stocks and corporate acquisitions . . . most of the money is [now] coming not from private investors but from foreign governments, led by Japan and China. Rather than profits, their goal has been to stabilize exchange rates . . . Many economists contend that the Asian central banks have created an informal version of the Bretton Woods system of fixed exchange rates that lasted from shortly after World War II until the early 1970s': Edmund Andrews, *New York Times*, 16 November 2004. According to the latest estimates, towards the end of 2004 foreigners owned about 13 per cent of us stocks, 24 per cent of corporate bonds, and 43 per cent of us Treasury securities (Robert Samuelson, *Washington Post*, 17 November 2004). The largest holding of us treasuries was Japan's (\$740 billion), followed by China's (\$174 billion) and Taiwan's (\$57 billion). Adding the lesser holdings of Hong Kong, Singapore, South Korea and Thailand, East Asian holdings of us treasuries totalled \$1.1 trillion (William Pesek, *International Herald Tribune*, 7 December 2004).

The main motivations of the governmental institutions that have financed the escalating us current-account deficit are not strictly economic but political. Ferguson quotes then IMF chief economist Kenneth Rogoff's statement to the effect that he would be 'pretty concerned about a developing country that had gaping current-account deficits year after year, as far as the eye can see, of 5 per cent or more, with budget ink spinning from black into red.' Of course, as Rogoff hastened to add, the us is not a developing country; but—though neither Rogoff nor Ferguson say this—it is no ordinary 'developed' country either. The us expects and obtains from other governments and international institutions—first and foremost the IMF—a preferential treatment in the handling of its finances that no other state, no matter how 'developed', could hope to get. This is not due primarily to the Balzac effect, but rather to the unparalleled weight and centrality of the United States within the global economy; and to the generalized perception (at least before the present Iraq crisis) that American military might is essential to world political stability. In this respect, power and centrality in the global political economy matters far more for the us than it ever did for Britain. For Britain could count on something that the United States cannot: a territorial empire in India from which it could extract financial and military resources almost at will.⁹⁸

We may therefore summarize the us condition of domination without 'hegemony' as follows. As in Britain's case at a comparable stage of relative decline, escalating us current-account deficits reflect a deterioration in the competitive position of American business at home and abroad. And as in Britain's case, though less successfully, us capital has partially countered this deterioration by specializing in global financial intermediation. Unlike Britain, however, the us has no territorial empire from which to extract the resources needed to retain its politico-military pre-eminence in an increasingly competitive world.

Fragilities of the belle époque

Britain, of course, eventually lost its pre-eminence. As competition from old and new empire-building rivals intensified, creating a favourable environment for the rebellion of colonial subjects, the costs of empire escalated over and above its benefits. As Britain found it increasingly

⁹⁸ On this difference, see 'Social and Political Economy', pp. 44–6. We shall return to the centrality for British hegemony of tribute extraction from India in Part II.

difficult to make empire pay for itself, let alone provide a surplus, the country became increasingly indebted to the United States, which combined lower protection costs and greater proficiency in industrialized warfare than Britain or any of its rivals. Over time, this situation forced London to liquidate its overseas empire and to settle for the position of junior partner to the new hegemonic power. It nonetheless took two world wars, both of which Britain won militarily but lost financially, for Britain to lose its prior position as the world's leading creditor nation.⁹⁹

The us, in contrast, has become a debtor nation much earlier and more massively than did the UK, not just because of its consumerist orientation but also because it has had no India from which to draw, gratis, all the troops it needed to wage as endless a series of wars in the global South as Britain did during its own hegemony. Not only did Washington have to pay for American troops and their highly capital-intensive weaponry; in addition, instead of extracting tribute from an overseas empire, it had to compete aggressively in world financial markets for the capital needed to balance the explosive growth of its current-account deficit. Although the United States was highly successful in this during the 1980s and 1990s, the capital it attracted—unlike Indian contributions to the British balance of payments—did not come for free. On the contrary, it generated a self-expanding flow of incomes to foreign residents that has made the current-account deficit increasingly hard to balance.

It follows that the American *belle époque* of the 1990s was based on a virtuous circle that could at any time turn vicious. This virtuous-but-potentially-vicious circle rested on the synergy of two conditions: the us's capacity to present itself as performing the global functions of market of last resort and indispensable political-military power; and the capacity and willingness of the rest of the world to provide the us with the capital it needed to continue to perform those functions on an ever-expanding scale. The collapse of the Soviet bloc, the spectacular 'victories' in the Gulf and Yugoslav wars and the emergence of the new-economy bubble all gave a tremendous impulse to the synergy between us wealth and power on the one side, and the influx of foreign capital on the other. But if any of those conditions changed, the synergy might go into reverse and turn the virtuous circle into a vicious one.

⁹⁹ Arrighi and Beverly Silver, *Chaos and Governance in the Modern World System*, Minneapolis 1999, pp. 72–87.

Coming to power just after the bursting of the new-economy bubble, Bush had plenty of reasons to be ‘uncomfortable’ about the policies of the Clinton era.¹⁰⁰ During the bubble’s expansion, most of the foreign capital that flowed into the United States had been private capital in search of profits, and the private investors themselves had formed an amorphous mass that gained little or no leverage over us policies. As noted, however, after the bubble burst the inflow of capital became more political, and the governments that financed the escalating us current-account deficit necessarily gained more than a little leverage over us policies. This greater leverage posed no immediate problem for Washington, because most of the East Asian creditor states, first and foremost Japan, felt deeply dependent on the us for their security and prosperity. As we shall see, this situation changed radically with the emergence of China as an alternative destination for East Asian exports and investment, and as a significant creditor of the United States. But even abstracting from the China factor, growing financial dependence on foreign governments necessarily constrained us ability to pursue its national interest in the multilateral and bilateral negotiations that promoted and regulated global economic integration. In June 1997, for example, on his way back from a G8 meeting in Denver that featured considerable chest-thumping by the Clinton Administration about the booming us economy, the Japanese Prime Minister told a New York audience that Japan had been tempted to sell large lots of us Treasuries during Japan’s negotiations with the United States over auto sales, and again when exchange rates were fluctuating wildly while the United States appeared preoccupied with domestic issues. As one commentator noted, Hashimoto ‘was simply reminding Washington that while it had created a robust . . . economy, Asian central banks held the deed’.¹⁰¹

Financing America’s second century

The Bush Administration’s decision to respond to 9/11 by launching a protracted war on multiple fronts added new urgency to the need

¹⁰⁰ Prior to the invasion of Iraq, foreboding comparisons between post-bubble United States and Japan gained currency. The fact that in 2002 us stocks declined for the third consecutive year, the longest losing streak since 1939–41, did not help. The unprecedented combination of fiscal and financial stimuli put in place by the Bush Administration (see below) allayed but never completely disposed of fears that the United States in the 2000s might repeat the Japanese experience of the 1990s.

¹⁰¹ William Pesek, *International Herald Tribune*, 7 December 2004.

to switch from the policies of the 1990s, for how could such a war be financed from a starting-point of heavy indebtedness to other countries? There were four possible answers to this question: raise taxes; borrow more heavily from foreigners; make war pay for itself; or exploit the seigniorage privileges that the United States enjoyed by virtue of the general acceptance of the us dollar as international currency.

Raising taxes was out of the question. Having won the elections on a platform of extensive tax reductions, the Bush Administration could not raise them without alienating its core electoral base, thus committing political suicide. Moreover, the popularity of the war effort rested in good part on the belief, fostered by the Administration, that the us did not have to choose between guns and butter but could have more of both. Indeed, the 9/11 crisis was used to launch two wars while taking advantage of the surpluses built by the previous Administration to spend while cutting taxes. In retrospect, laments Friedman, the United States ‘followed the dot-com bubble with the 9/11 bubble . . . The first was financed by reckless investors, and the second by a reckless Administration and Congress.’¹⁰²

Borrowing more heavily from abroad was possible but within economic and political limits. Economically, the limits were set by the need to keep interest rates low in order to revive the domestic economy after the 2000–01 crash on Wall Street, which 9/11 had further aggravated. Politically, the limits were set by the Bush Administration’s reluctance to give foreign governments more leverage over us policies. Borrowing from foreign governments did however increase after 9/11—as did their leverage. Since Bush took office, East Asian central banks have added to their Treasury holdings at a rate of nearly half a billion dollars a day, that is, about a third of the average us current-account deficit. The funding of the deficit was thus left increasingly to the mercy of these banks. But this situation was not so much the result of a conscious us policy to increase borrowing, as of foreign governments’ decisions, for reasons of their own, to keep financing current-account deficits spiralling out of us control.

Making the war pay for itself was more easily said than done. The previously noted switch from the unfinished war in Afghanistan to Iraq was

¹⁰² Thomas Friedman, *New York Times*, 2 December 2004.

due not just to the expectation that Iraq provided a more favourable terrain for an easy us victory, as famously epitomized in Rumsfeld's remark that Iraq had 'better targets' than Afghanistan. It was due also to the expectation that Iraqi oil would provide the wherewithal for the consolidation of us power in Iraq and the West Asian region at large. As we now know, both expectations have gone unfulfilled. Once the 'better Iraqi targets' had been taken out, Iraqi oil could not begin to cover the escalating costs of a war that dragged on without end in sight. The Administration had refused to discuss costs in the run-up to the war, beyond insisting that they would be minimal. It was only when the fighting had begun, with full Congress support, that they demanded \$75 billion for the Iraq Freedom Fund. Having declared hostilities over and pushed through a big tax reduction, Bush told Congress that he needed an additional \$87 billion. In May 2004 he demanded another \$25 billion.¹⁰³ In December 2004, the Pentagon was preparing a request for another supplemental appropriation of about \$80 billion. By then, however, the government budget deficit was so out of control that the Pentagon was forced also to propose cuts in expenditure for weapons designed for the Cold War, which were proving little use in the War on Terror.¹⁰⁴

Since taxes could not be raised, further borrowing from abroad had limits, and the war was not paying for itself, the exploitation of us seigniorage privileges became the main source of finance for Bush's wars. As one commentator wrote, shortly after the invasion of Iraq, a cynic might view the way that foreign countries were providing the us with goods, services and assets, in return for overpriced pieces of paper, as 'a brilliant us conspiracy':

In the 1980s and 1990s, [us] policymakers persuaded a host of economies to liberalize their financial markets. Such liberalizations generally ended with financial crises, currency crises, or a combination of the two. These disasters lowered domestic investment in the afflicted countries, instilled deep fear of current-account deficits and engendered a strong desire to accumulate foreign-exchange reserves. The safest way was to invest surplus funds in the country with the world's biggest economy and most liquid capital

¹⁰³ Paul Krugman, *New York Times*, 18 May 2004.

¹⁰⁴ *International Herald Tribune*, 31 December 2004. In February 2005, President Bush actually ended up asking Congress for \$82 billion. According to figures compiled by the Congressional Research Service, if approved, the new request would push the totals provided for the War on Terror past \$300 billion: *New York Times*, 14 February 2005.

markets. When gullible foreigners can no longer be persuaded to finance the us, the dollar will decline. Since us liabilities are dollar-denominated, the bigger the decline, the smaller net us liabilities to the rest of the world will then turn out to be. In this way, the last stage of the 'conspiracy' will be partial default through dollar depreciation.¹⁰⁵

At the end of 2004 the *Economist* put the decline of the dollar over the previous three years at 35 per cent against the euro and 24 per cent against the yen, and estimated the stock of dollar assets held by foreigners at nearly \$11 trillion. 'If the dollar falls by another 30 per cent, as some predict, it would amount to the biggest default in history: not a conventional default on debt service, but default by stealth, wiping trillions off the value of foreigners' dollar assets.'¹⁰⁶

Leaving aside the fact that the main victim of the 'conspiracy' has been Japan (a member of the 'coalition of the willing'), us exploitation of seigniorage privileges in order to consume guns and butter far beyond its means can postpone but not indefinitely avoid the fundamental structural adjustment of the United States needed to reflect its substantially diminished competitiveness in the global economy. An increasing number of us observers have recently lamented this loss of competitiveness, not just in low-technology, labour-intensive sectors, but also in the high-tech, knowledge-intensive activities that constitute the backbone of us comparative advantage.¹⁰⁷ us multinationals have seen their revenues and profits grow, but the growth occurred primarily abroad, and these firms could only hold on to their global market share by reinvesting the profits abroad too. The revaluation of the currencies of other countries (most notably China) might help the us to recoup competitiveness in world markets, but past experience is not encouraging:

¹⁰⁵ Martin Wolf, *Financial Times*, 30 September 2003. For more complex accounts of the us 'conspiracy', see Robert Wade, 'The Invisible Hand of the American Empire', *openDemocracy*, 13 March 2003, and Andre Gunder Frank, 'Meet Uncle Sam—Without Clothes—Parading Around China and the World', available at www.rrojasdatabank.info/agfrank/, 6 January 2005.

¹⁰⁶ *Economist*, 2 December 2004.

¹⁰⁷ See, among others, Jean Kumagai and William Sweet, 'East Asia Rising', *IEEE Spectrum Online*, accessed 19 October 2004; William Broad, *New York Times*, 3 May 2004; Eduardo Porter, *New York Times*, 6 December 2004; David Baltimore, *Los Angeles Times*, 29 November 2004; Adam Segal, 'Is America Losing Its Edge?', *Foreign Affairs*, vol. 83, no. 6, November–December 2004.

There is an abundance of evidence that the us obsession with currencies is misplaced. Since 1976 the yen has roughly trebled in value against the dollar. But there has been no significant improvement in the us bilateral position against Japan—the long-standing *bête noire* of us manufacturers.¹⁰⁸

us adjustment to the new realities of the global economy will involve some combination of further depreciation of the dollar, appreciation of the currencies of countries with the largest current-account surpluses, and a rerouting of these surpluses from the financing of us deficits to the creation of demand elsewhere, especially in East Asia. This eventual adjustment may be ‘brutal’, through a dollar rout, or ‘smooth’.¹⁰⁹ Either way, the adjustment will inevitably result in a further decrease of us command over world economic resources, a reduction of the weight and centrality of the us market in the global economy, and a diminished role for the dollar as international means of payment and reserve currency.

The Administration has shown some awareness of the risks involved in relying too heavily on a depreciating dollar to buttress us competitiveness and default on us liabilities to foreigners. Thus, at the Doha meeting in June 2003, Treasury Secretary John Snow persuaded the finance ministers of the other G7 countries to sign a joint statement arguing that the determination of exchange rates should be left to the market. The statement was taken as a signal that Washington was officially abandoning the strong dollar policy of the Clinton era, and the dollar promptly dived against all major currencies. But whenever the dive has threatened to become a rout, the Treasury Secretary repeats the mantra about the importance of a strong currency: ‘Nobody in the markets quite knows what [that] means anymore, but just in case it could signal a burst of intervention, they take cover and stop selling greenbacks’.¹¹⁰

¹⁰⁸ James Kynge and Christopher Swann, *Financial Times*, 26 September 2003. The recent dollar depreciation has in fact done little to narrow the us trade gap. At the end of 2004, increasing exports for five consecutive quarters were matched by even faster increases in imports (Daniel Altman, *New York Times*, 5 December 2004). The result was a further increase of the us trade deficit in 2004 to a new record of \$617.7 billion.

¹⁰⁹ Martin Wolf, *Financial Times*, 30 September 2003.

¹¹⁰ *Guardian*, 3 November 2003. Although Snow and Bush have continued to affirm their support for a strong dollar, by December 2004 ‘many in the markets consider this only face-saving rhetoric’. See David Nassar, ‘Dollar at a Discount’, *CBS Marketwatch* website, 7 December 2004.

The markets' confusion has been perfectly understandable, given the contradiction between the Administration's rhetorical adherence to a strong currency and the extreme monetary and fiscal laxity with which it has been trying both to sustain the anaemic us recovery and to finance the escalating costs of the War on Terror. This laxity is reminiscent of us policies in the closing years of the Vietnam war, when Nixon's Treasury Secretary, John B. Connally, famously told a worried world: 'The dollar is our currency, but your problem.'¹¹¹ Eventually, however, the sinking dollar did become an American problem. For a brief moment in January 1980, the rise of the price of gold to an all-time high of \$875 an ounce seemed to signal an imminent end to the *de facto* dollar standard inaugurated in 1971—the year in which the us finally abandoned its commitment to buy gold at the fixed price of \$35 an ounce. As it turned out, the dollar quickly recovered from the rout and the *de facto* dollar standard has remained in place ever since. In light of this experience, the Bush Administration's willingness to push to its limits the abuse of seigniorage privileges may be due to the belief that, if the worst comes to the worst, Washington can pull back from the brink and enjoy another twenty years of uncontested seigniorage.¹¹²

Consequences of the dollar's plunge

In the event of a new dollar rout comparable to that of the late 1970s, however, it would be far more difficult, if not impossible, for the us to regain the upper hand in the world monetary system. In the 1980s, the dollar recouped its position as the world's money by virtue of a sudden and radical reversal of us monetary policies, from extreme laxity to extreme austerity, accompanied by a stepping up of us competition for capital worldwide—through record-high interest rates, tax breaks and

¹¹¹ Cited in Mark Landler, *New York Times*, 12 December 2004.

¹¹² This belief seems to be implicit in Cheney's contention, as reported by Paul O'Neill, that 'Reagan proved that deficits don't matter'. Quoted in John Cassidy, 'Taxing', *New Yorker*, 26 January 2004, pp. 23–4. It is also possible, however, that the abuse of us seigniorage privileges is simply the unintended consequence of a situation out of control. 'Bush is seen, rightly or wrongly, as far less comfortable dealing with global economic management than he is sitting in the Situation Room, buried in the details of the Iraqi insurgency or Iran's nuclear threat. As a result the weakening dollar, to the minds of many from Hong Kong to Berlin, is a metaphor for a presidency so distracted by national security issues that American economic influence has ebbed.' David Sanger, *New York Times*, 25 January 2005.

increasing freedom of action for capitalist producers and speculators.¹¹³ But the very success of this policy reversal in attracting massive amounts of capital has turned the us from a creditor nation into the world's leading debtor. us creditors may pause—as they certainly do—at the idea of pulling the rug from under the feet of such a big debtor. *Pace* Balzac, it would nonetheless make no sense at all for them to redouble their lending to a country that has partially defaulted on its debt through massive currency depreciation.¹¹⁴ Moreover, having already granted extraordinary incentives to capital, the Administration has little left to offer in the situation of a new dollar rout. Under these circumstances—unprecedented indebtedness and exhaustion of incentives—a hike in interest rates like the one engineered under Reagan would provoke a far more severe domestic contraction, without any guarantee that it would be followed by a robust recovery. An interest-rate rise would thereby aggravate rather than alleviate the relative downsizing of the us economy that would ensue from the dollar rout.

To this we should add that in the late 1970s there were few, if any, viable alternatives to the us dollar as international currency. The euro was still a project rather than a reality. The rapidly appreciating German Mark and Japanese yen had neither the global economic weight nor the national institutional support needed to become significant means of international payment and reserve currencies. Having nowhere else to go, capital taking flight from the dollar thus went primarily into gold. But no capitalist power had any interest in a re-monetization of gold at a time of world economic stagnation, especially in view of the leverage that such a re-monetization would have put in the hands of the ussr. Under these circumstances, us attempts to preserve the dollar standard could count on the active cooperation of all the governments that mattered in world monetary regulation.

In this respect the situation today is quite different. The governments that matter may still be willing, to a large extent, to cooperate with the us Administration in preserving the dollar standard. But this willingness rests on foundations that are different—and less favourable to the us—than they were in the 1980s. As former Treasury Secretary Lawrence

¹¹³ The policy reversal began under Carter but materialized fully only under Reagan. See 'Social and Political Economy', pp. 42–3, 63–7.

¹¹⁴ Martin Wolf, *Financial Times*, 8 December 2004.

Summers has recently put it, us dependence on foreign cash is 'even more distressing' than us dependence on foreign energy:

In a real sense, the countries that hold us currency and securities in their banks also hold us prosperity in their hands. That prospect should make Americans uncomfortable. There is something odd about the world's greatest power being the world's greatest debtor. It is true, of course, that the foreign governments and investors financing the superpower spending spree have no incentive to bankrupt the us economy by suddenly dumping their dollar reserves. The ensuing financial crisis would seriously damage their own economies as well. But having finally emerged from the Cold War's military balance of terror, the United States should not lightly accept a new version of mutually assured destruction if it can be avoided.¹¹⁵

Indeed, it is far more difficult for the us to resolve the new 'balance of terror' in its favour than was the case with the ussr. As previously noted, the decisive advantage of the us during the Cold War was financial. But in the new confrontation, financial power is stacked not in favour but against the United States. Should us abuses of seigniorage privileges once again result in a dollar rout, European and East Asian governments are in a far better position than they were 25 years ago to create viable alternatives to the dollar standard. The euro's share of official reserve holdings has clicked steadily upwards, from 13.5 per cent of all foreign holdings in 1999 to 19.7 per cent in 2003; the euro area's economy is about the same as that of the United States and, in dollar terms, is growing faster; unlike the us, the Eurozone is a net creditor. We should nonetheless bear in mind that in these matters inertia is the rule and the dethroning of the dollar does not require that any other single currency take its place. As the *Economist* points out:

Dislodging an incumbent currency can take years. Sterling maintained a central international role for at least half a century after America's GDP overtook Britain's at the end of the nineteenth century. But it did eventually lose that status. If America continues on its current profligate path, the dollar is likely to suffer a similar fate. But in future no one currency, such as the euro, is likely to take over. Instead the world might drift towards a multiple reserve-currency system shared among the dollar, the euro and the yen (or indeed the yuan at some time in the future) . . . A slow, steady shift out of dollars could perhaps be handled. But if America continues to show such

¹¹⁵ Lawrence Summers, 'America Overdrawn', *Foreign Policy*, no. 143, July–August 2004, pp. 46–9.

neglect of its own currency, then a fast-falling dollar and rising American interest rates would result.¹¹⁶

In sum, like many of its critics, the Bush Administration may well think that a sinking dollar is not an American problem but rather a very effective means of forcing friends and foes to finance the us war effort and us economic growth. In reality, the sinking dollar of the 2000s is the expression of a far more serious crisis of American hegemony than the sinking dollar of the 1970s. Whether gradual or brutal, it is the expression (and a factor) of a relative and absolute loss of the us's capacity to retain its centrality within the global political economy. In order to fully appreciate the extent and nature of this loss, we must switch our focus to what, in retrospect, may well appear to have been the greatest failure of the neo-conservative imperial project: the failure to prevent China from becoming a potential new centre of the global political economy.

C. *The China syndrome*

On the eve of 9/11, John Mearsheimer concluded *The Tragedy of Great Power Politics*—the most ambitious product of recent American international relations theorizing—with a prognosis and a prescription concerning the implications for us power of the Chinese economic ascent:

China is still far away from the point where it has enough [economic] power to make a run at regional hegemony. So it is not too late for the United States to . . . do what it can to slow the rise of China. In fact, the structural imperatives of the international system, which are powerful, will probably force the United States to abandon its policy of constructive engagement in the near future. Indeed, there are signs that the new Bush Administration has taken the first steps in this direction.¹¹⁷

¹¹⁶ 'Disappearing Dollar', *Economist*, 2 December 2004; see also Rachel Koning, *CBS Market Watch*, 7 September 2004.

¹¹⁷ Mearsheimer, *The Tragedy of Great Power Politics*, New York 2001, p. 402. Mearsheimer's argument echoed Wolfowitz's 1992 contention that the objective of foreign policy should be 'to prevent any hostile power from dominating a region whose resources would, under consolidated control, be sufficient to generate global power.' Quoted in Johnson, *Sorrows of Empire*, pp. 85–6. Mearsheimer reiterated his position in an interview given eight months after 9/11. 'The United States will go to great lengths . . . to contain China and to cut China off at the knees, the way it cut Imperial Germany off at the knees in World War I, the way it cut Imperial Japan off at the knees in World War II, and the way it cut the Soviet Union off at the knees

As it turns out, by getting bogged down in the Iraq quagmire, the Bush Administration has been forced to deepen rather than abandon its constructive engagement with China. On his way to and from the 2003 Asia-Pacific Economic Cooperation meeting in Bangkok, Bush skirted—both geographically and rhetorically—the country that once was at the centre of his Administration’s national security policy.¹¹⁸ As the *Financial Times* noted, this was ‘a significant shift’ for a president ‘who came into office touting his break from Clintonian policies of engagement with China, insisting in the first weeks of his presidency that China was a “strategic competitor” to the United States.’ Before September 11, the Administration had stepped up overtures to India in an attempt to create a counterweight to China; after that date balance-of-power politics took a back seat to the War on Terror. As security issues in West Asia weighed ever more heavily on the Bush Administration, so warnings of the Chinese threat gave way to an even greater engagement with Beijing than under Clinton. The reversal was so complete that the White House began boasting that it had ‘better relations with China’ than any administration since Nixon resumed relations with the PRC.¹¹⁹

To be sure, the Pentagon has continued to warn that ‘Beijing has greatly expanded its arsenal of increasingly accurate and lethal ballistic missiles and long-range strike aircraft that are ready for immediate application should the PLA be called on to conduct war before its modernization aspirations are fully realized.’ More important, the War on Terror has helped the United States to ‘prepare for China’, as John Gershman has

during the Cold War.’ At the same time he acknowledged that ‘it would be almost impossible to slow down Chinese economic growth.’ A more effective strategy, he claimed, would be for the us to put in place a political and military ‘balancing coalition’ that included Japan, Vietnam, Korea, India and Russia. The United States could then back Russia in a border dispute with China; it could back Japan in a dispute with China over sea lines of communication; or it could ‘go to war on behalf of Taiwan’. In Harry Kreisler, ‘Through the Realist Lens’, *Conversations with History: Conversation with John Mearsheimer*, Institute of International Studies, uc Berkeley, 8 April 2002; available at <http://globetrotter.berkeley.edu/>.

¹¹⁸ ‘In the first draft of the 1992 Defense Policy Guidance drafted by Paul Wolfowitz and Lewis Libby, it was unclear where the new rival to us supremacy would most likely emerge. Europe and Japan as well as China were among the candidates. By the time the Bush Administration came into office, however, the proponents of this doctrine of supremacy saw only one possible peer competitor emerging in the foreseeable future: China.’ John Gershman, ‘Remaking Policy in Asia?’, *Foreign Policy in Focus*, November 2002; available at www.fpiif.org.

¹¹⁹ *Financial Times*, 17 October 2003.

underscored, through the development of a network of military bases in Central Asia unimaginable before 9/11, the strengthening of frayed military ties with the Philippines, a greatly expanded defence budget, and the revival of Reagan's Strategic Defense Initiative: 'If China is the enemy of the future, then the us has got a lot of what it wanted, without saying that China is the enemy.'¹²⁰

Beijing's leverage

Nevertheless, the more the us became entangled in the War on Terror and dependent on cheap foreign credit and commodities, the more successful was China in bringing to bear a different kind of 'structural imperative' to those envisaged by Mearsheimer. As Paul Krugman has pointed out, when the us Treasury Secretary went to Beijing to request a revaluation of the yuan and got no satisfaction, one reason was that China's trade surplus with the United States was largely offset by trade deficits with other countries. But another reason was that:

the us currently has very little leverage over China. Bush needs China's help to deal with North Korea . . . Furthermore, purchases of Treasury bills by China's central bank are one of the main ways the us finances its trade deficit . . . Just four months after Operation Flight Suit, the superpower has become a supplicant to nations it used to insult.¹²¹

Moreover, the Administration knows that imposing tariffs on Chinese imports, as a way to press for revaluation, is a move that would backfire. As Bush's economic adviser Greg Mankiw has repeatedly stated, most us jobs have been lost in industries—machinery, transport equipment, semiconductors—where Chinese competition is slight. More important, a revaluation of the yuan would merely replace Chinese imports with those of other, more expensive foreign suppliers. The result would be rising inflation in the United States, a further loss of American competitiveness, and a reduction rather than an increase in jobs.¹²²

¹²⁰ *Financial Times*, 17 October 2003. One of the key statements of the National Security Strategy Document of 2002—'Our forces will be strong enough to dissuade potential adversaries from pursuing a military build-up in hopes of surpassing, or equalling, the power of the United States'—also did not mention China. As David Sanger observes, however, it is hard to see which state qualified more than China as a potential us rival: *New York Times*, 20 September 2002.

¹²¹ Krugman, *New York Times*, 11 December 2003.

¹²² *Economist*, 11 December 2003.

The combined effects of China's strong economic hand and Washington's troubles in West Asia are reflected not just in the two countries' mutual relations but also in their respective standing with third parties. On the eve of the 2003 APEC meeting in Bangkok, the *New York Times* reported that political and business leaders in Asia saw us hegemony 'subtly but unmistakably eroding as Asian countries [looked] toward China as the increasingly vital regional power'. Although the us remained the region's biggest trading partner, China was rapidly catching up, especially vis-à-vis America's two most important strategic allies, Japan and South Korea. More important, local perceptions of the politics of the situation had experienced a radical turnabout. A prominent Singaporean businessman who, a year earlier, had accused China of being 'a juggernaut poised to smother the weaker economies of Southeast Asia', now drew an altogether different picture: 'The perception is that China is trying its best to please, assist, accommodate its neighbours while the United States is perceived as a country involved more and more in its own foreign policy, and strong-arming everyone onto that agenda.'¹²³ At the same time, the 'rise of Asia' was being hailed by the *Financial Times*'s chief analyst as 'the economic event of our age':

Should it proceed as it has over the last few decades, it will bring the two centuries of global domination by Europe and, subsequently, its giant North American offshoot to an end. Japan was but the harbinger of an Asian future. The country has proved too small and inward-looking to transform the world. What follows it—China, above all—will prove neither . . . Europe was the past, the us is the present and a China-dominated Asia the future of the global economy. That future seems bound to come. The big questions are how soon and how smoothly it does so.¹²⁴

The Asian future may not be as inevitable as Wolf seems to imply. Nevertheless, there are signs of waning us influence even in the cultural sphere where—from Hollywood movies to MTV—the American appeal remains strongest. Deterred from visiting the us by the difficulties of getting visas after 9/11, an increasing number of Asians have been travelling to China, as students and tourists. Cultural exchanges flow both ways: the Chinese are becoming the dominant tourist group in the region; Asian students have taken advantage of proliferating opportunities for

¹²³ Jane Perlez, *New York Times*, 18 October 2003.

¹²⁴ Martin Wolf, *Financial Times*, 22 September 2003.

higher education in China, while middle-class Chinese students who cannot afford steep American fees go to campuses in Southeast Asia.¹²⁵

World trade tilting east

But it is in the economic sphere that the ascent of Chinese influence is most remarkable. Over the past three years, China has accounted for one-third of the total increase in world import volume. It has thereby become 'a locomotive for the rest of East Asia' where a large part of its imports are concentrated, with exports to China having played a big role in Japan's recent economic recovery.¹²⁶ But China's importance relative to the us is growing rapidly even outside the East Asian region. Trade with India has grown from \$300 million a decade ago to \$13.6 billion in 2004, leading to a 'complete U-turn' in the relationship between the two countries and to an unprecedented mutual engagement at the governmental and business level alike.¹²⁷ Washington's failure to tighten its control over the 'global oil spigot' in West Asia was signalled most spectacularly by the signing of a major oil agreement between Beijing and Tehran in October 2004. Further south, oil fuels China's push into Africa. In 2003 alone, China–Africa trade increased nearly 50 per cent to \$18.5 billion. Each year, more Chinese entrepreneurs arrive in Africa to invest where Western companies are uninterested in doing business, while the Chinese government (except for requesting that Taiwan not be recognized) provides development assistance with none of the strings that are attached to Western aid. Increasingly, African leaders look east for trade, aid and political alliances, shaking up the continent's historical links with Europe and the United States.¹²⁸ Equally significant are Chinese inroads in South America. While Bush paid only a fleeting visit to the 2004 APEC meeting in Chile, Hu Jintao spent two weeks visiting Argentina, Brazil, Chile and Cuba, announced more than \$30 billion in new investments and signed long-term contracts that will guarantee China supplies of vital raw materials. Political spinoffs seemed to be

¹²⁵ Jane Perlez, *New York Times*, 3 December 2004.

¹²⁶ *Economist*, 2 December 2004. In 2004, China surpassed the us to become Japan's biggest trading partner since records began: *Financial Times*, 26 January 2005.

¹²⁷ Anna Greenspan, *International Herald Tribune*, 14 September 2004; N. Vidyasagar, *Times of India*, 9 February 2005.

¹²⁸ John Murphy, *Baltimore Sun*, 23 November 2004.

advancing most rapidly with Brazil, where Lula has repeatedly floated the idea of a 'strategic alliance' with Beijing.¹²⁹

In 2003, the European Union forecast that China might overtake the us as its biggest trade partner by 2010.¹³⁰ In fact, if trade between the EU and China continues to grow as fast it did in the first half of 2004 (a stunning 44 per cent increase), the two will become each other's leading trading partner in 2005. In addition, the EU is the largest foreign supplier of technology and equipment to China, and one of the top foreign direct investors there. Combined with their mutual designation as 'strategic partners' and frequent joint meetings and state visits, these increasingly close economic ties have prompted talk of an emerging 'China–Europe' axis in world affairs. 'Axis' may be too strong a word; but if such an alliance actually emerges, it will be largely because of a common perception that us financial and military policies constitute a serious threat to world security and prosperity. As one European Commission official described: 'The us is the silent party at the table in all EU–China meetings, not in terms of pressure but in terms of our mutual interest in developing multilateralism and constraining American . . . behaviour.'¹³¹

China has also begun to overshadow the United States in the promotion of multilateral trade liberalization. Regionally, it sought integration with ASEAN countries by agreeing a Treaty of Amity and Cooperation, while simultaneously seeking economic ties with Japan, South Korea and India. Globally, it joined Brazil, South Africa and India in leading the G20 offensive at the 2003 WTO meeting in Cancún against Northern double standards—imposing market opening on the South while remaining fiercely protectionist itself, first and foremost in agriculture where the South has the greatest comparative advantage. In this respect, too, China's stance contrasted sharply with the us abandonment of multilateral trade negotiations in favour of bilateral agreements, aimed at breaking up the Southern alliance that emerged at Cancún, or at gaining support for the War on Terror. On July 4, 2004, American Independence Day, the *New York Times* magazine went so far as to counter the neo-conservatives'

¹²⁹ During a state visit to China in May 2004, Lula said that Brazil wanted 'a partnership that integrates our economies and serves as a paradigm for South–South cooperation.' Larry Rohter, *New York Times*, 20 November 2004. See also Richard Lapper, *Financial Times*, 10 November 2004.

¹³⁰ Art Pine, *International Herald Tribune*, 3 November 2003.

¹³¹ David Shambaugh, 'China and Europe: The Emerging Axis', *Current History*, vol. 103, no. 674, September 2004, pp. 243–8.

New American Century by announcing the coming ‘Chinese Century’ as its cover story:

The us economy is about eight times the size of China’s . . . Americans, per capita, earn 36 times what the Chinese do. And there is no shortage of potential roadblocks in China’s path, either. Its banks may collapse. Its poor and its minorities may rebel. Uppity Taiwan and lunatic North Korea may push China to war. The us could slap taxes on everything China ships to us. Still, barring . . . nuclear cataclysm, nothing is likely to keep China down for long. Since 1978 . . . [it] has gone from being virtually absent in international trade to the world’s third-most-active trading nation, behind the us and Germany and ahead of Japan . . . 21 recessions, a depression, two stock-market crashes and two world wars were not able to stop the us economy’s growth, over the last century . . . China is poised for similar growth in this century. Even if China’s people do not, on average, have the wealth Americans do, and even if the United States continues to play a strong economic game and to lead in technology, China will still be an ever more formidable competitor. If any country is going to supplant the us in the world marketplace, China is it.¹³²

In sum: far from laying the foundations of a second American Century, the occupation of Iraq has jeopardized the credibility of us military might, further undermined the centrality of the us and its currency within the global political economy, and strengthened the tendency towards the emergence of China as an alternative to us leadership in East Asia and beyond. It would have been hard to imagine a more rapid and complete failure of the neo-conservative imperial project. But if the current Administration’s bid for global supremacy is most likely to go down in history as one of the several ‘bubbles’ to have punctuated the terminal crisis of us hegemony, its bursting does not mean that the world-historical circumstances that generated the Project for a New American Century will evaporate—or that Washington will not remain a dominant player in world affairs. Although no longer hegemonic in the sense in which we have used the term, the us remains the world’s pre-eminent military power and retains considerable leverage in the new ‘balance of terror’ that links its economic policies to those of its foreign financiers and competitors. In order to identify the possible future uses of this residual power, as well as their probable consequences, we must now turn to the historical processes that underlie the relationship between capitalism and imperialism. It is these questions that Part Two of this essay will address.

¹³² Ted Fishman, ‘The Chinese Century’, *New York Times Magazine*, 4 July 2004.