

Economics and Politics within the Capitalist Core and the Debate on the New Imperialism.

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[NB: This paper is ‘work in progress’: still at a preliminary stage. So please contact me if you want to quote from it]

Introduction

In the lively new debate on what has come to be called the New Imperialism one focal point is the extent to which there are structural sources of conflict between the main centres in the capitalist core and if there are, whether these currently take the form of inter-state rivalry.

Perhaps the two strongest poles in this debate amongst authors with a connection to Marxism are Leo Panitch and Sam Gindin on one side and Giovanni Arrighi on the other. The first two authors deny that there is structural conflict and rivalry between the main core centres and see the lines of conflict as lying principally between labour and global capitalism with the latter being structured by a hegemonic American Imperialism. They view its most vulnerable flanks at the present time as lying in the field of political legitimation both of the American Empire itself and of individual states as they transform themselves into the receptacles of a Neo-Liberal Global Capitalist order. Giovanni Arrighi, on the other hand, views the current period as marked above all by a chronic and acute crisis of American hegemony over the core and thus as a period of rather intense struggle over hegemonic succession.

I will argue for elements of third position on these issues. I will argue that there are structural sources of conflict between core capitalisms in the fields both of economics and politics. These sources of conflict are, I will argue, generating tensions and rivalries today. But my argument will not do so far as Giovanni Arrighi’s claim of a terminal hegemonic decline of the US. It may still have the capacity to rebuild its dominance.

I first want to clarify some terms. I want to contrast structural sources of conflict from contingent sources of conflict. There are evidently all kinds of political conflict occurring all the time between capitalist states. Some of these can be quite intense, for example, a conflict between Iceland and Britain over fishing rights in the North Sea in the 1970s came very close to military clashes between Navies. But this was a contingent conflict, not one that related to structural issues. Conflicts can be considered structural in two different senses: first because they have their source in systemic features of capitalism; but second because they have their source in what we can call the structural configuration in the present conjuncture.

I also want to distinguish between structural sources of conflict between core capitalisms and actual inter-state rivalries. Rivalries involve a concerted effort by states to gain advantage for itself and/or its capitalism against other capitalist states through a politicised conflict. There can be structural sources of conflict between

capitalist states which are nevertheless jointly managed to avoid inter-state rivalry on the issue. An example of such a structural source of conflict that was jointly managed was the American-British relationship and the conflict in Northern Ireland. The American state for many decades allowed the Irish Republican movement to raise funds and campaign for support in the United States while the British state was actively engaged in a military struggle to crush the Republican movement. For the British state this was a structural issue in that it touched on the territorial integrity of the so-called United Kingdom. But this structural source of conflict was managed between the British and American state so that it did not poison the alliance between the two (by the British putting up IRA fund-raising in the US).

I also want to distinguish political rivalry between core capitalist centres from full-blooded military-political rivalries involving arms races and political confrontations that could generate war. There are levels and forms of political rivalry and conflict well-short of war, which are nonetheless real conflicts.

The bulk of this paper explores the extent to which there are structural sources of conflict in economic relations between the main core capitalist centres. I identify two such sources: first, industrial competition on which the great bulk of the paper is focused; and secondly, structural tensions in the field of monetary relations and macro-economic management. But I will also explore the extent to which there are structural political sources of conflict within the core at the present time.

But first, I will make some preliminary points about the general relationship between international economics and politics in the capitalist world.

PART 1: THE RELATIONSHIP BETWEEN INTERNATIONAL ECONOMICS AND INTERNATIONAL POLITICS IN THE CAPITALIST WORLD

While there are strong tendencies in mainstream international relations theory to treat international politics and economics as largely autonomous of each other and as governed by entirely different logics, there remains on the left a strong tendency to adopt an analytical perspective based on economic base-political superstructure models. Such models lead us to seek explanations for dramatic political events, like the recent Anglo-American aggression against Iraq in tensions within the economic field. This is a methodological error.

I take capitalism to be a particular historical form of *social organisation* of economic activity. The basis is this form of social organisation into distinctive types of class relations between people. It is constitutive of both distinctive kinds of market relations and of distinctive forms of state and distinctive kinds of political conflict. So we can say that the capitalist socio-economic base is constitutive of a distinctively capitalist type of politics and culture. It is also constitutive of distinctive types of international economic and political relations.

But this type of systemic, 'constitutional' causation should not be translated into an analytical model for trying to understand the causes of international politics in economic events. The capitalist socio-economic system causes a certain type of

capitalist politics. But capitalist economic events do not necessarily cause particular political events.

We are interested here in the distinctive types of international economics and international politics that take place in capitalist inter-state systems. As Ellen Meiksins Wood has recently reminded us, one crucial distinctive feature of capitalism is the separation of state coercive authority and the direct owners of economic property. Another distinctive feature is that capitalist property – capital – is polymorphic, it can take a multitude of forms – money, plant, raw materials and labour, commodities and a variety of types of paper (loan agreements, bonds, stocks, etc. – all made possible by the activity of the state’s legal, administrative and coercive apparatuses. In all its forms capital’s mission is expansion through a variety of market exchanges. But the polymorphic forms of capital and the capacity of law to protect its character as property in all its forms makes it possible for capital to be spatially mobile – to profit from relationships between people far distant from each other.

These features of capitalism make it possible for capitalists to expand their property rights and property claims by entering into contractual relationships with social groups within the jurisdiction of other states. Thus under capitalism the possibility of transnational economic linkages between social groups in different states expands enormously, by permission of the governments of the states concerned (since all international economics takes place within the jurisdictions of states – offshore is the product of some state’s jurisdiction).

Therefore the nature of the internal socio-economic, legal and political regimes *within states* lies at the very heart of capitalist international economics. The profitability of international economic operations in a capitalist world can always be enhanced by or weakened by a vast range of different changes in the internal regime of any state. Therefore, capitalist classes have powerful economic reasons for seeking to maximise the influence of their state over the shape of the internal regimes of other states. Thus capitalist economic expansion abroad is always deeply connected to efforts to reshape the internal social and political regimes of other states and is always pre-occupied with ensuring that these internal regimes continue to protect and facilitate the property expansion of the source capitalism’s capital. These are always more or less political questions, questions of power.

Capitalist economic reproduction requires a very high degree of political security, especially because of the time-lag between throwing forward capital and garnering later profits. And state coercive policy is designed to shape the environment of the working class to ensure that it faces market compulsion to sell its labour and work in a disciplined way. At the same time, market compulsion plus the meat-grinder of the legal system for criminalizing the undisciplined poor is far from enough to ensure social stability and security for capital. Capitalist states must find ways of gaining loyalty to its authority on the part of both the capitalist classes and the subordinate, exploited classes. Capitalist states characteristically do this by seeking to instill the idea of a political identity between itself and the population under its control: a radical contrast with many pre-capitalist political authorities which sought to establish a difference in kind between rulers and ruled. This is aided by the fact that the state ‘stands above’ the direct conflicts between labour and capital at the workplace. But

capitalist states have found the need to generate stronger, positive identities: through common ethnicities, common religions, common history stories, national identities and also through establishing identities of leaders and led through elections. Common identities are also established negatively, through friend-enemy polarisations. As Giovanni Arrighi has recently reminded us, drawing in the work of Charles Tilly, capitalist states characteristically consolidate these political identity bases of their authority by actually demonstrating a readiness and capacity to defend and protect the 'imagined community'.

This peculiarly capitalist type of political domination is extended on an international level. While the European Empires over pre-capitalist societies generally tried to stress the radical difference and superiority of the colonial rulers, powerful capitalist states asserting their political ascendancy over other capitalist societies tend to do so by both controlling their internal regimes in non-colonial ways (giving them formal juridical sovereignty, for example) while simultaneously presenting their political domination in the form of their leadership of a single community with a shared political identity, pitted against other alien (and typically hostile) political communities. Thus, Germany in the Second World War was the leader of Europe and the protector of Europe against Asiatic Bolshevism and American Plutocracy. Japan was the leader of a Greater Asian Co-Prosperity sphere. And the United States in the Cold War was the leader and protector of a Free World.

The degree to which the establishment of these capitalist 'Grossraums' have required imperial coercion to maintain depends crucially upon the extent to which the dominant power can gain the support of the capitalist classes and linked internal elites of the subordinate states. This is not determined simply by the short-term economic interests of these classes and elites but by their collective conceptions of their predicament as ruling classes. German leadership was widely supported by the capitalist classes of Europe because they saw a real threat from Bolshevism and labour, while the German state remained broadly supportive of their Empires (in return for loyalty). The Communist threat and the priority of restoring their Empires after 1945 similarly helped throw the European ruling classes to the feet of the Americans, while the ruling classes of defeated Germany and Japan managed to negotiate the rebuilding of their industrial strength and the relegitimation of their states in return for accepting the status of military-political protectorates with the US controlling their geopolitical orientations.

In each case these grossraums offered substantial prospects for a large geographical expansion of the capitalism of the dominant power. Thus the connection between capitalist international politics and international economics was obvious: Germany, Japan and the US could reorganise the internal legal socio-economic and political regimes of their satellites in ways that could set the framework for greatly expanded capital accumulation with the lead centre as the hub. But equally, the international economic dominance of a given capitalism can act as a powerful lever for expanding its political sway and its political sphere of influence. Nevertheless, to consolidate that political sphere of influence, the given leading capitalist state (or coalition of states) must be able to offer security and protection to the regimes of other capitalist states and must also be able to generate the political value system that will draw that state into some kind of international political community, distinct from other such communities.

To capture these dynamics, we should not speak of separate logics in international economics and politics. It would be better to speak of separate languages which share a common dialectical logic. The international market power of a state's capitals enhances the international political power of a state. The greater the political power of a state within the inter-state system, the greater its capacity to open or close markets in appropriate ways favourable to the expansion of its capitals. The way in which the executives of capitalist states themselves conceptualise their external strategies reflects the fact that they do not think in terms of separate logics. They develop 'national strategies' (or more euphemistically, 'national security strategies' as if they were concerned with defensive matters rather than expansive matters). These national strategies seek to integrate the domestic and the external and the political and economic. And it would be quite wrong to assume in advance that in the construction of such national strategies economics pulls rank on politics. They are about strengthening both the authority and influence of their capitalist state and the sway and growth of their capitalism, domestically and externally.

This effort by capitalist states to integrate politics and economics into a single strategic logic does not, of course, mean that they are successful in maintaining such integration. The given social formation's interaction with its external environment will take unforeseen forms and acute tensions and contradictions can pull national strategies apart. But it would be quite wrong to suppose that the main form of these tensions and contradictions is one between economics and politics. The purely political dimension may enter deep crises of explosive internal contradictions. It would also be wrong to assume that national strategies are strictly rational. They are the product of the particular weltanshaungs and social cultures of the given ruling classes of the given states and of their leading elites.

We have stressed that there is no international economy outside the jurisdiction of states. But there are international regimes in the International Political Economy. These are necessary to the functioning of the international capitalist economy. The most important of these regimes is that which provides arrangements for international monetary arrangements for without these arrangements transnational economic linkages will be jeopardised. But international legal regimes are also necessary for providing security for international trade and investment, and for creditor-debtor relations as well as for a host of other kinds of international transactions. Nevertheless, the effectiveness of all such IPE regimes depends upon the readiness of the internal regimes of states to respect and abide by them. And ensuring such compliance is ultimately the task of politics. Thus the most powerful states within the capitalist system have historically been the ones which establish the IPE regimes of international capitalism and they will establish rules which favour the expansion of their own capitalism.

This, of course, raises the question as to which is the most powerful centre. Power as capacity to lead in the IPE can be based upon very different kinds of resources from power as the capacity to coercively impose. And power in a basically co-operative framework amongst main capitalist centres can be based upon different foundations from power in conditions of political rivalry and confrontation. Thus the distribution of power as capacity in the international capitalist system is a function of the conjunctural configuration at the world order level.

But one fundamental question arises today about the relationship at a systemic level between power politics in the inter-state system and international economics. This question can be posed in a number of ways. One, liberal, way of posing the question is whether international exchanges between capitalist economies can be a positive-sum game. In other words, can international capitalism be organised in such a way that all capitalist societies will benefit equally from the maximum expansion of international exchange? The liberal answer to this question is affirmative. They claim that if the nostrums of liberal economic theory are applied, all societies can gain optimal outcomes in terms of welfare economics. This therefore implies that insofar as there are tensions and conflicts in international relations under capitalism, these derive either from rent-seeking activity by some states in the IPE or from the intrusion of power politics into international economics.

However, this question has also been posed in another way by left critics of liberalism who reject the liberal linkage between capitalism and human welfare. They ask the question: has there been the emergence of a global capitalism in which MNEs from different states co-operate to impose a neo-liberal international regime in which MNEs prosper at the expense of the subordinate classes of the world?

Both the Liberal and the alter-globalisation arguments imply that capitalism as an international system has a systemic capacity to overcome the fragmentation of the world into a set of antagonistic states and political economies. They also imply that this systemic tendency is manifesting itself today and that states are becoming the hand-maidens of a global capitalism whose functions are reduced to labour control and to the maintenance of an international economy in which a global capitalism, transcending the nation state can flourish. If this were indeed the case, we could not speak of structural sources of conflict between core capitalisms at all. Structural sources of conflict would lie, instead between global capital and labour.

PART 2: TWO STRUCTURAL SOURCES OF CONFLICT IN THE INTERNATIONAL ECONOMICS OF CORE CAPITALISM

In this section I will argue that there are two structural sources of conflict amongst core capitalisms in the economic field. One has systemic sources in the dynamics of industrial competition, particularly in high tech sectors. The other also has systemic sources in the problem of combining a fiat international money, necessarily constructed politically, but in an inter-state system without a supranational political authority.

A The Dynamics of Industrial Competition

1. Increasing Returns to Scale

The entire notion that the competition of capitals has been or can be disconnected from political rivalry in an inter-state system rests upon an acceptance of certain key assumptions in neo-classical economics. At its core, this theory assumes that so long as there is full factor mobility and so long as markets set prices while all firms are price takers, economic efficiency both in an allocative and in a productive sense will be achieved. If these conditions apply internationally efficiency will be maximised for the benefit of all. Neo-classical economists thus argue that insofar as states are dedicated to promoting the aggregate wealth of their societies they should welcome

the establishment of institutions of global governance dedicated to implementing neo-classical principles: freeing markets in the factors of production and preventing 'rent-seeking monopolistic practices amongst their 'own' firms.

The key problem with this theory is that it rests entirely on the assumption that firms face decreasing returns to scale, rather than increasing returns. This is the cognitive basis for its normative claims about the economic efficiency of free markets. With decreasing returns to scale a firm dedicated to maximising output and sales would go bust because its costs would rise while other firms could sell more cheaply bankrupting the output maximiser.

Yet in most industries and especially in high tech industries, this core assumption of the founders of neo-classical economics such as Walras and Pareto and their American successors have been found to be wrong: industry after industry turns out to be marked by increasing returns to scale¹. And where this applies the most efficient firm structure in a given industry is not actually competition between a multitude of firms but the dominance in the industry of the most efficient firm: the one that can exploit to the maximum the logic of increasing returns to scale. Thus, let us assume that we have two firms in the market in conditions of increasing returns to scale. Let us assume that they both employ identical types of fixed capital, inputs and labour and produce identical products. But one has a far larger production run than the other. The marginal costs of the smaller producer will then be far larger than the marginal costs of the larger. In such circumstances, the most efficient solution is for the first firm to drive out the second firm and dominate international production in the given industry: one industry, one firm would be the best outcome from an efficiency point of view.

Marx was not the first to underline the tendency for increasing returns to scale in manufacturing.² But he understood it very clearly and he used it to explain what he called the concentration and centralisation of capital.³ Marx grasped the drive for scale economies in the first place through his experience of British capitalism. He writes: "The battle of competition is fought by cheapening of commodities. The cheapening of commodities depends, *ceteris paribus*, on the productiveness of labour, and this again on the scale of production. Therefore the larger capitals beat the smaller." (Capital 1, page 686) He underlined that the drive for economies of scale expresses itself under capitalism as the tendencies towards the concentration and centralisation of capitals. Concentration refers to enlargement of the scale of production. It thus operates mainly at the level of the plant, rather than at the level of the firm. Small plants get knocked out by big plants because the latter enjoy economies of scale denied to the smaller plants.

¹ Robert Wade initially introduced me to the centrality of increasing returns to scale and to the extremely important and far too neglected work of his colleague at LSE, Teddy Brett. See in particular, E.A Brett, *International Money and Capitalist Crisis. The Anatomy of Global Disintegration* (Heinemann, London, 1983) This book is seminal not only for its treatment of economies of scale but also for its extremely valuable analysis of international monetary relations.

² Schumpeter notes that the theory of increasing returns in manufacturing industry was actually first advanced by Antonio Serra in his *Breve Trattato* in 1613, and Adam Smith also subscribed to the idea as did McCulloch and Senior. See Schumpeter, *History of Economic Analysis*, pages 258-9 and 585.

³ Although Marx described the dynamics of increasing returns to scale in a capitalist context I don't think he regarded this as necessarily confined to capitalism. I suspect that he would have envisaged it continuing under socialism and treated it as a general feature of industrial modernity. Capital both drew on it and limited its development in various crucial ways.

Centralisation, on the other hand, operates at the level of the firm, rather than the plant. It means one firm gobbles up other firms, combining capitals that are already in existence. As Marx says 'it only presupposes a change in the distribution of capital already to hand and functioning. ...capital grows in one place to a huge mass in a single hand because it has in another place been lost by many. This is centralisation proper, as distinct from accumulation and concentration.' (Capital I, page 686)

For neo-classical economists the trend towards monopoly is explicable basically as the subversion of the free market by rent-seekers using politics. But in industrial markets marked by increasing returns to scale, monopoly is the productive-efficiency telos of the market. Marx also grasped this. After explaining how the logic of increasing returns generates concentration and centralisation of capital Marx writes that for society as a whole, the ultimate goal would not be reached 'until the entire social capital would be united either in the hands of one single capitalist, or in those of one single corporation.' (Capital I, p.688) Here is the drive's ultimate monopolistic logic.⁴

Marx was not alone in his grasp of the centrality of increasing returns to scale and of resultant efficiency telos of monopoly. The founder of modern Marginalism, Alfred Marshall, also grasped. As he explained in his *Principles of Economics*: 'We say broadly that while the art which nature plays in production shows a tendency to diminishing return, the art which man lays shows a tendency to increasing return. The *law of increasing return* may be worded thus:- An increase of labour and capital leads generally to improved organization, which increases the efficiency of the work of labour and capital. Therefore in those industries which are not engaged in raising raw produce an increase of labour and capital generally gives a return increased more than proportion; and further this improved organization tends to diminish or even override any increased resistance which nature may offer to raising increased amounts of raw produce....In most of the more delicate branches of manufacturing, where the cost of raw material counts for little, and in most of the modern transport industries the law of increasing return acts almost unopposed.'⁵

And, as Schumpeter – who also grasped this -- points out, Marshall was thus led to stress the centrality of the trend towards monopoly and imperfect competition 'whose patron saint Marshall may indeed be said to have been.'⁶

The Neo-Classicals from Walras onwards buried this reality of the central dynamic of modern industrialism.⁷ And indeed, Hicks in the 1930s acknowledged that abandonment of the idea of constant returns and thus of the assumption of perfect competition threatens the 'wreckage....of the greater part of [orthodox] economic theory.'⁸

⁴ Again, I don't think that Marx himself was necessarily hostile to a monopolistic form of organisation of modern industry. What he opposed was monopoly under *private capitalist control*. Indeed, part of the argument for a socialist organisation of production's greater efficiency surely lies here.

⁵ Alfred Marshall, *Principles of Economics*, Macmillan, 1925, p318-19 [book 4, chapter 13, section 2.]

⁶ Schumpeter, page 975.

⁷ Walras's attempts to use the calculus to produce a general equilibrium theory on assumptions of perfect competition involved him in assuming constant or declining returns. As Schumpeter points out, many neoclassical economists then tried to find ways of claiming that constant returns were necessary features of market economies, denying the obvious fact that whether returns increase or diminish is, in the first place, a purely empirical question.

We can illustrate these dynamics of increasing returns to scale with examples from high tech industries where they are especially pronounced. In semi-conductors, since the invention of integrated circuits, memory chip prices have dropped at a rate of about 35% a year. And in mainframe computers the quality adjusted annual price decline has been roughly 20%.⁹ These dramatic rises in what Marx would have called the rate of surplus value have come above all from so-called learning economies. Cumulative production experience has taught work forces how to dramatically reduce unit costs. By the mid-1990s, the cost of establishing a plant for leading edge semi-conductor production was over \$1bn. Thus the drive for maximising sales internationally is overwhelming.

2. How Increasing returns are generated

The generation and exploitation of increasing returns to scale, particularly in high tech, capital-intensive sectors, is not the result only of activities internal to the individual firm. It is the consequence, as Marx saw, of much wider social processes, in which the state is deeply implicated. We can list some of these:

1. Very large sources of cheap credit for heavy investment in new fixed capital.
2. Very large outlays on R&D.
3. The supply of suitably qualified labour
4. The supply of transport, communications and other infrastructures.
5. A favourable tax environment.
6. Policy support through the entire trade and regulatory framework to protect strategic sectors and to open markets abroad.
7. Using the state procurement market where possible to help launch new products.
8. Support mechanisms to ensure firm survival when the firms concerned get into difficulties.
9. Creating an industrial relations environment favouring stability in this field, so important for gaining learning economies from the work force.

Many of these mechanisms are needed to counter-act what Marx called the rising organic composition of capital and the consequent tendency of the rate of profit to fall, a particularly strong trend in high tech sectors. We can mention some of these mechanisms in the tax-subsidy fields: in the US state governments typically give large subsidies to strategic sectors as we saw above in relation to Boeing. In another important US high tech sector, pharmaceuticals, the major companies avoid paying the great bulk of US corporation tax. The latter is 35% but in 2004 Pfizer paid only 9% of its world pre-tax profits in federal and state taxes; Lilly paid just one per cent.¹⁰

In these circumstances where state activity has a crucial bearing on the success of its high tech companies, there are very large political pressures for the state to prioritise general support for companies in these sectors. To remain indifferent is to invite defeat. And for the state to approach these sectors from the angle of non-interventionist neo-liberal rules based on a false theory of diminishing returns to scale is equally to invite defeat in an inter-state system.

⁸ Hicks, *Value and Capital*, p 84, cited in Schumpeter *o.cit.*, page 972. I am also grateful to Robert Wade for pointing this out to me. The neo-classicals hide this secret by immediatism and by excluding the range of forces generating increasing returns, such as technological change and learning, the role of the credit system and the roles of the state.

⁹ Flamm, page 7.

¹⁰ Alex Berenson, 'Drug Makers Reap Benefits of Tax Break' *New YorkTimes*, 8th May, 2005

3. The Logic of Increasing Returns in an inter-state System.

Insofar as the inter-state system arranges its IPE regime in an entirely open regime, those national political economies able to generate the greatest scale economies in high tech Branch 1 industries will make the industrial sectors of other national economies dependent. To counter that dependence, other centres must take special measures to generate their own producers and to enable them to acquire equivalent scale. And they also need to acquire instruments for protecting these 'infant' high tech industries until they can go head-to-head against the currently dominant player. Equally states whose high tech capitals have lost their dominance must seek instruments for fighting back and regaining dominance.

The crucial point about all this is that under conditions of increasing returns to scale, the neo-classical link of free trade under perfect competition with efficiency norms is cognitively false. And in conditions of increasing returns to scale in an inter-state system, the link between trade regime and global productive efficiency norms has to be broken because its monopolistic telos is not politically acceptable to the main centres. It is acceptable for those centres for industries lower down the foodchain – the sorts of industries through which less advanced countries can rise if they can only protect their industrial sectors until they reach world class.

This reality produces three crucial conclusions. First the claim of liberals and neo-classical economies that international capitalist economics can be regulated by regimes rooted in norms that benefit all are simply false. Such norm-based rules would work if industrial capitalism was marked by decreasing returns to scale. In that case equilibrium theories would have some purchase. But given increasing returns to scale capitalist industrial economics is marked by disequilibrium and powerful efficiency logics towards monopoly. This produces a necessary source of conflict between states in a capitalist inter-state system.

The second conclusion is that in advanced industries it is simply false to claim that individual MNEs have lost their national identities. On the contrary they depend very heavily on external supports within their home states and within their home societies. And we can expect that they will face a relatively hostile environment within the markets of their main competitors.

The third conclusion is that to compete effectively in advanced sectors, states and their capitalists must find ways of gaining equivalent scale to their leading competitors. Here the benchmark since 1945 has been American scale. The European route to achieving competitive scale was through the Customs Union and then Single Market programme in the 1980s. The Japanese route involved crucially devising institutional structures and linkages at the level of the firm and in state-firm co-ordination (via MITI and the Bank of Japan's so-called window guidance system for the banks). But Japan lacked the regional base of developed capitalist societies that existed for German industry (and other European national industries) in Europe. It was thus pushed towards seeking a market base within the US and European markets, a vulnerable situation. And pressure from the nature of industrial capitalism and from American scale to create regional bases of equivalent scale remains powerful. Insofar as countries such as China and India can move up the international division of labour

they can of course easily attain and surpass the American benchmark but that will take time.

It is important to note the market power dynamics of industrial activity when there are powerful monopolistic dynamics in high tech Branch 1 (producer goods) industries. May other sectors lower down the industrial food chain become dependent upon supplies from the monopolistic producer.

3. Capitalism and Leadership in the International Industrial Division of Labour

It is not the case that capitalism is *necessarily* articulated to maximise technological innovation and the struggle for technological leadership in advanced industries. Furthermore, the phenomenon of increasing returns to scale in industry does not derive from the nature of capitalism as a social system: it would operate equally in a socialist industrial order. The economic motive of individual capitals is profits and these can be made in a host of different ways, not least through efforts to expand absolute surplus value.¹¹ There are plenty of examples of capitalist classes which have sought to build their capitalism without concentrating on striving for industrial leadership in the world market. After all, such a strategy entails creating a very powerful industrial working class and many capitalists have historically been familiar with the main outlines of Marxist thought about such matters!

The stress on technological development and technological competition during the period of European ascendancy was driven much more by state activity in the military-industrial field, with little or no stress given to state support for civilian high tech before 1945. This non-involvement of the state in policies for developing high tech leadership outside the military sector also applied in the United States. But there, the sheer scale of the domestic market pushed industrial capitalists to develop a scale of production far greater than in Europe. And Ford discovered the secret of turning the working class into consumers as well as producers. Thus *American* capitalism did become oriented towards technological innovation to exploit economies of scale in the civilian sector. So by 1945 US industry was indisputably hegemonic in the international industrial division of labour. And its ascendancy was not the product of a state mercantilist drive to achieve technological ascendancy on a global scale. American state policy on technological security was overwhelmingly focused on military technology.

But in the post-war period, America's overwhelming military dominance within the capitalist core transformed the military-political context of intra-core relations. And American policy quite consciously came to involve supporting efforts in West Germany and Japan to become the industrial hubs of their respective regions while simultaneously reducing both to the state of protectorates in the military-political field. In this context both West Germany and Japan (as well as France) developed national strategies focused on struggling for industrial leadership in some key sectors within the core. This turn was thus not simply the spontaneous outcome of market decisions by capitalists. They were concerted efforts in the field of state strategy.

¹¹ Sandra Halperin demonstrates this deliberate tendency in the case of 19th century and early 20th century Britain. See her *War and Social Change in Modern Europe* (Cambridge University Press, 2004) pp. 82-108.

Such strategies in conditions of US military-political dominance hold out the possibility of achieving real political leverage in international relations. As Robert Cooper points out, Japanese military security is probably a vital interest of the United States ‘because Japanese industry is an integrated component of the global market, vital for many Western manufacturers and retailers...’.¹² And this US dependence on Japanese products also gives Japan leverage over the US in the event of sharp political conflicts with Washington. At the same time high tech sectors, though small in their overall weight in GDP bring multiple economic benefits. They, on average have more rapid sales growth and more than double the profits growth of medium-tech industries and they provide wide positive externalities for other firms supplying components or working lower down the industrial food chain.

These strategic orientations to compete as national capitalisms with American capitalism for leadership in the international division of labour entailed finding ways of coping with the scale of American industry. The West German answer was found through EU construction, giving a large, secure regional market base for German industry. The Japanese answer lay through an extremely efficient concentration of resources on strategic high tech sectors, along with a strong state planning and state support for key industrial sectors through MITI’s industrial policies and through the Bank of Japan’s so-called ‘window guidance’ system of credit allocation. It also involved structuring Japanese companies for maximising market share rather than for maximising returns to shareholders.

Bob Brenner’s work has traced the results of this industrial challenge to the US from Germany and especially from Japan from the 1970s through into the 1990s at a macro-economic level.¹³ We will look at the more micro and industrial policy dimensions of the conflicts in the field of industrial competition, particularly in the high tech area.

Industrial Rivalry in High Tech Sectors

We will begin by looking at some empirical material demonstrating the configuration of the largest individual capitals in the core. Despite the vast literature on ‘economic globalisation’ in the 1990s, at a material level, property expansion of the main 3 centres of capitalism is overwhelmingly regionalised. This applies to both international trade and international stocks of investment.¹⁴ If we view Japan and the US as centres of their immediate regions (East and South East Asia for Japan and NAFTA for the US) over 90% of what is consumed within each region is produced within that region.¹⁵ The sectoral exceptions to this pattern are in East Asian consumer electronics and in information products without significant transport costs. These are significant exceptions, to be sure. But the fact remains that the major trend in terms of international economic integration lies in regionalisation. Proponents of

¹² Robert Cooper, *The Breaking of Nations: Order and Chaos in the Twenty-first Century* (London: Atlantic Books, 2003) page 38.

¹³ Robert Brenner, ‘The Economics of Global Turbulence’, *New Left Review*, no. 229, May-June 1998.

¹⁴ Much of the empirical case for economic globalisation rested on dichotomising the national and the global for trade and investment statistics. When you dichotomise the global and the regional, the statistics give you dramatically different results.

¹⁵ Alan Rugman, ‘From Globalisation to Regionalism: The Foreign Direct Investment Dimension of International Finance’ in Karl Kaiser, John J. Kirton and Joseph P. Daniels (eds.) *Shaping a New International Financial System. Challenges of Governance in a Globalizing World* (Ashgate, Aldershot, 2000) pp203-219

economic globalisation often lay great stress on the importance of FDI rather than trade. This is certainly important in one area: US FDI in Europe and , to a lesser extent, EU FDI in the US. But a great deal of the inter-regional FDI is in the field of *distribution systems, not production*. Thus Japanese FDI in the US is overwhelmingly in wholesaling, not production: its FDI in the former is five times larger than its FDI in the latter.¹⁶

Regionalism is also very pronounced when we look at the data from the angle of MNE sales rather than just at the aggregate trade and foreign affiliate sales figures in different countries and regions. Alan Rugman's work has been particularly important here. He and Alain Verbeke have studied the distribution of activities of the Fortune 500 largest MNEs in the world. They account for over 90% of the world's stock of FDI and for about 50% of total world trade. Their HQs are given in Table 1.

Table 1: Distribution of World's Largest 500 MNEs

	1981	1991	1996	2000
No. in Triad		410	443	430
No. in US	242	157	162	185
No. in EU	141	-	155	141
No. in Japan	62	119	126	104

Source: Rugman, A. M. (2000) *The End of Globalization*, London: Random House and New York: Amacom-McGraw Hill.

In examining the concrete relations of these aggregates to geo-economic patterns of capital accumulation, it is useful to distinguish between MNE's product market-seeking trade and investment and their resource-seeking (above all labour seeking) trade and investment.

(1) Market-Seeking Activities

Rugman and Verbeke define an MNE as having a base in any one region by the criterion of having at least 20% of its sales in that region. Thus a global MNE would have at least 20% of its sales in each of the three triadic regions, a bi-regional MNE would have at least 20% of its sales in each of two regions, etc. At the same time, they define a home-region MNE as one having over 50% of its sales in a single region.¹⁷ Their definition of the Asian region includes Japan, China, S.Korea and ASEAN. At purchasing power parity, this region is as large in terms of consumer sales as the other two.¹⁸

Note: Weighted averages were calculated by assuming the lowest point in intra-regional sales (i.e. >90=90)

Source: Alan M. Rugman and Alain Verbeke, 'A Perspective on Regional and Global Strategies of Multinational Enterprises' *Journal of International Business Studies* 35:1 (2004): 3-18.

¹⁶ Gould and Krasner, page 78.

¹⁷ One weakness of Rugman and Verbeke's work is their failure to address issues concerning informal alliances and joint ventures between MNEs in different regions. It is possible that in some cases, these relationships may increase regional sales in ways that do not show up in the data. On the other hand, for tax purposes, MNEs in Europe and especially in the US may often exaggerate their overseas sales (and profits) for home tax purposes.

¹⁸ Alan M. Rugman and Alain Verbeke, 'A Perspective on Regional and Global Strategies of Multinational Enterprises' *Journal of International Business Studies* 35:1 (2004): 3-18.

Table 2: Classification of top 500 MNEs in 2001

Type of MNE	No. of MNEs	% of 500	% of 380	Weighted av. % of intra-regional Trade
Global	10	2%	2.6%	38.2%
Bi-regional	25	5%	6.6%	42%
Host-region Oriented	11	2.2%	2.9%	30.9%
Home Region Oriented	320	64%	84.2%	80.3%
Insufficient data	14	2.8%	3.7%	40.9%
No data	120	24%	-	Na

In the table 2 above, we find some rather dramatic figures. First, of the 380 MNEs for which sales data is available, a miserable 2.6% are global companies, while 84.2% are home region oriented. Only 6.6% are bi-regional.¹⁹

The problem, then, is to explain the pronounced bias towards regionalism rather than globalism amongst MNEs. Given the fact that many of these companies will tend to be operating in high tech, capital-intensive sectors with large economies of scale, they should have a huge incentive to 'go global' and achieve large sales across all three triadic markets. Yet they do not achieve this. The language of Rugman and Verbeke is very coy about why this is so. They explain that conventional MNE theory fails to theorise what they call the 'liability of foreignness'. They argue that it is extremely difficult for firms to acquire the locational advantages abroad that they can get in their own region. And they add that 'host regions may require large adaptation investments driven by home/host region differences in the institutional and economic sphere in order to meld the MNE's existing knowledge base and the host-region location advantages. This requirement for high, region-specific 'linking' investments acts as an entry deterrent for many MNEs.'²⁰

They then finally grasp the nettle of triadic mercantilism: 'inter-block business is likely to be restricted relative to intra-regional sales by government-imposed barriers to entry. For example, the EU and the United States are likely to fight trade wars and be responsive to domestic business lobbies seeking shelter in the form of subsidies and/or protection. Institutional and economy-related differences among members of a single triad region may remain, but these will mostly be less significant than across triad regions. The end result is the persistence of MNEs that will continue to earn 80% or more of their income in their home-triad region. There will only be a limited number of purely 'global' MNEs in the top 500.'²¹

¹⁹ An interesting category in Table 2 is that of host-region oriented MNEs. These are companies which sell more than 20% of their output in a region other than their own and have less than 50% of their sales in their home region. Only one US company (Manpower) has this characteristic, focused in Europe. All the others are focused in the US. 8 European MNEs are in this group; one Japanese company – Honda. The last member of the group is Murdoch's Australian NewsCorp

²⁰ Alan M. Rugman and Alain Verbeke, 'Towards a Theory of Regional Multinationals: A Transaction Cost Economics Approach' *Management International Review* 44 (4) (Special Issue)(2004): 3-15.

²¹ Alan M. Rugman and Alain Verbeke, 'Towards a Theory of Regional Multinationals: A Transaction Cost Economics Approach' *Management International Review* 44 (4) (Special Issue)(2004): 3-15.

We will return to the question of triadic protectionism later. But first we will briefly touch upon the other dimension of the outward expansionism of triadic industrial capitals: their international labour-seeking activities

(2) Labour Seeking Activities

Alongside the decline in the importance of the semi-periphery and periphery as key sources of raw materials for the most advanced sectors of core industries, we have also seen the rising importance of these regions as sources of cheap labour. On the one hand, mature industrial sectors in the core, characterised by rather stagnant technologies and saturated markets, have often transferred their production activities wholesale into the semi-periphery to benefit from cheaper labour. This trend has been evident since the 1970s.

At the same time, since the 1970s, there has been a rather dramatic fragmentation of the production processes of the most advanced sectors in the core and the shift of the more labour-intensive phases of the production process into the semi-periphery to gain from cheap labour costs. Corresponding to this shift has been a dramatic shift in the composition of international trade: today about one third of international trade consists of so-called 'input-trade'.²² MNEs outsource segments of their production to cheap-labour zones and then re-import the intermediate goods for finishing and sales.

But this trend towards production fragmentation and input trade also has a strongly regional character. Each triadic centre has, since the 1980s, been building regional hinterlands of cheap labour in order to gain maximum advantage from these kinds of economies: Japan (and increasingly South Korea) has been using South East Asia and China; the United States, Mexico and Central America; the West Europeans, East Central and Eastern Europe). These operations also require the MNEs to shift their business, banking, communications and transport services into these hinterlands to service such MNE operations. The classic form of these tactics is the Maquiladora operations along the Mexican border with the US.

And in seeking labour from these hinterlands, MNEs generally find eager, not to say desperate welcomes. As Rugman and Verbeke put it, in this field 'all relevant parties, such as foreign suppliers, workers, and acquired companies themselves engage in reciprocal commitments to make these investments worthwhile'.²³ But the source of this welcome lies in the fact that the host countries have in most cases been blocked by the triad from other options, unless they are large enough to set their own course without being entirely export dependent.

This is, of course, not a complete picture of the international economy. There are new, potentially powerful challenges from large states outside the core, like China, India and Brazil. And large 'Emerging Markets' like Brazil are important markets for core exporters. But my concern is with the character of relations within the core.

The New Mercantilism in the Triad

For decades both the EU and the US have consistently and loudly presented a narrative of the history of international economic regimes since 1945 as a progressive

²² See Ronald W. Jones, *Globalization and the Theory of Input Trade* (MIT Press, 2000)

²³ Alan M. Rugman and Alain Verbeke, 'Towards a Theory of Regional Multinationals: A Transaction Cost Economics Approach' *Management International Review* 44 (4) (Special Issue)(2004): 3-15.

advance towards completely open markets and free trade, culminating in the Uruguay Round and the founding of the WTO. The impression is thus given that in 1945 we had a given quantum of barriers and with each round that quantum has been reduced. This is propagandistic. Trade negotiations, led by the US and the EU, focus on opening markets for *new growth sectors* that they want to drive into international markets. And while new openings are made, new closures are simultaneously often taking place. The GATT trade rounds tended over the decades to open more and more of less and less: by the start of the 1990s, GATT covered only about 5% of world trade.

We will not attempt to provide here an overview of the current international trade regime. We will focus instead on aspects of the current trade regime most relevant to economic relations between the core centres. We will just take 4 examples of the new mercantilism in the triad, focusing particularly on the US and the EU. First, anti-dumping policy; then anti-trust, then Free Trade Agreements and then two examples of core mercantilism in high tech sectors: the examples of semi-conductors and commercial aircraft.

Anti-Dumping Policy

Dumping used to be defined as selling goods abroad more cheaply than in your home market. But since the 1970s, US trade law has redefined dumping as selling products below 'fair value'. Since 1980 about 60% of all US anti-dumping cases have been based on this fair value concept²⁴.

'Fair value' is calculated by the US Commerce Department by working out what should be the long-run **average costs of production** in a given industry, and then adding on a fixed 8% mark-up to reflect 'normal' profits²⁵: sales below that can be treated as dumping by the US and can simply be driven out of the US market.

But in industries marked by increasing returns to scale – a feature of most industrial sectors and especially of high tech sectors -- pricing a product on the basis of long run average costs makes no economic sense. Even pricing products at current marginal cost is often inefficient. Companies typically engage in 'forward pricing' – pricing below current marginal cost – particularly in industries which exhibit strong learning economies. This has long been understood in the US, where it was first spelt out in the early 1980s.²⁶ Forward pricing in this context is not dumping but is simply rooted in the knowledge that current marginal costs are bound to fall in the future.²⁷ Yet as Kenneth Flamm points out 'pricing below a constructed long-run average cost has

²⁴ See Pietro Nivola, 'Trade Policy: Refereeing the Playing Field' in Thomas E. Mann (ed.) *A Question of Balance: The President, the Congress and Foreign Policy* (Brookings, 1990). See also Gary N. Horlick, 'The United States Antidumping System' in John H Jackson and Edwin A. Vermlost (eds.) *Antidumping Law and Practice: A Comparative Study* (University of Michigan Press, 1989).

²⁵ There are also key administrative and accounting rules in the Commerce Dept's fair value calculations and these are widely seen as systematically biasing the system towards findings of dumping and toward higher dumping margins. See Richard Boltuck and Robert E. Litan, 'America's "Unfair" Trade Laws' in Boltuck and Litan, *Down in the Dumps: Administration of the Unfair Trade Laws* (Brookings, 1991)

²⁶ Michael L. Spence, 'The Learning Curve and Competition' *Bell Journal of Economics*, Vol 12 (Spring 1981), pp49-70.

²⁷ Kenneth Flamm, *Mismanaged Trade? Strategic Policy and the Semi-Conductor Industry* (Brookings Institution Press, 1996), page 307.

become the principal grounds for applying the US dumping laws to US imports of some foreign products.²⁸

Thus US anti-dumping policy is a very powerful instrument of economic warfare. It has been used on countless occasions. The EU also engages in a whole range of bogus anti-dumping measures for exactly the same mercantilist purposes as the US.

And however many industrial sectors are made tariff free is irrelevant in this context: rivals can be hammered in all such sectors through this mechanism. And to avoid being hammered in this way, states are typically required to introduce ‘voluntary export restraints’ (VERs), ‘voluntary price floors’ etc.

These instruments have been used very widely against so-called ‘emerging markets’ such as Brazil or South Korea but they have also been used against Japan. And it is crucially important to note that the anti-dumping weapon can be used in all and any trade sector as a devastating protectionist instrument regardless of how open the sector may formally be within the WTO.

It is also worth noting that the US has exhibited a penchant for what Bhagwati calls ‘aggressive unilateralism’ under Section 301, Super 301 and Special 301 of US trade law.²⁹ This was the main characteristic of US trade policy in the late 1980s and the first half of the 1990s. And although it was attenuated after the formation of the WTO, the Bush administration has shown that this tendency is far from dead. And just as the US was never actually a legal member of the GATT – because the US Senate would not ratify the Treaty – is has only conditionally accepted the WTO Treaty: the Senate’s ratification was conditional upon the readiness of the WTO to make decisions which were ‘fair’ to the US.

Anti-Trust

Anti-trust regulation in the US and the EU would seem, on the face of it, to be a pillar of liberal IPE norms, protecting companies and consumers from monopolistic practices. They are often presented as bastions of liberal internationalism ensuring genuine international competition. Traditionally, indeed, in the United States the key aspect of competition policy – that on mergers and acquisitions—was geared to preventing ‘incipient’ monopoly. As Edward Graham of the Institute of International Economics explains: ‘Until the late 1970s, this was done pretty much without regard to whether these distortions might be offset by factors that would enhance efficiency... This unwillingness to consider efficiency defences, however, changed during the 1980s, when these enforcement agencies – the Federal Trade Commission and the Antitrust Division of the Department of Justice – upgraded their analytical techniques to recognise that mergers could create offsetting efficiencies.’³⁰ The phrase about ‘upgrading’ analytical techniques is a pleasant little joke. What Graham means is that the relevant agencies grasped that in industries characterised by increasing

²⁸ Flamm, page 358.

²⁹ For a detailed, rather sympathetic account of the use of these measures by the US in the 1980s and early 1990s see Thomas O. Bayard and Kimberley Ann Elliott, *Reciprocity and Retaliation in US Trade Policy* (Institute for International Economics, Washington DC, 1994)

³⁰ Edward M. Graham, ‘Economic Considerations in Merger Review’ in Simon J. Evenett, Alexander Lehmann and Benn Steil (eds.) *Antitrust Goes Global. What future for Transatlantic Cooperation* (Brookings, RIIA, 2000), age 61

returns to scale, monopoly could be good (for American capitalism) if it was judged to enhance increasing returns and global market dominance.

The same pattern is visible at the West European level: the EC established a merger regulation in 1989. This was supposedly to implement article 82 of the Treaty of Rome against ‘the abuse of a dominant firm position’. But the regulation specifically allows DGIV (the Commission authority on mergers and acquisitions) to take account of efficiency considerations in its judgement on mergers. Since in industries characterised by increasing returns to scale efficiency can be enhanced by maximum concentration of capital to the point of complete market dominance for one firm, the regulation supposedly against market dominance can assure market dominance in the name of efficiency. And the regulation has the great virtue – from the angle of European big business – of giving no explanation of how the efficiency criterion will relate to other factors: in other words, DGIV has more or less complete discretion as to what policy to adopt on monopolisation.

Graham goes on to explain that efficiencies should be understood dynamically and not in a static way. So the authorities can be ‘tolerant of mergers that create dynamic efficiencies even if these create some static welfare losses due to increased market power.’³¹ This interesting remark then softens us up for the next. For Graham explains: ‘in recent years in the United States and implicitly in the EU, merger and acquisition review has operated largely under the premise that market concentration is in most circumstances a self-correcting distortion. In other words, it is largely held that, if monopoly rents are created by merger or acquisition, in the absence of greater efficiency of the merged enterprise, these rents will in most instances draw new entry into the market. This entry, in turn, will correct the inefficiencies created by market power held at the outset by the merged firm.’³² This is a piece of cant. A Japanese company, say, entering the US or European market in a given sector for the first time will not do so because of the existence of monopoly rents on the part of domestic producers. It will do so if it judges it can cover its costs of entry. And amongst such huge overhead costs are those of having to establish a new distribution system and those of having to face a host of other privileges of the domestic competitor, not least their easy access to domestic political influence. Graham in fact illustrates this when he says that while the creation of dynamic efficiency is the key criterion of anti-trust bodies, but a second best criterion is to ignore inefficiencies on the grounds that the foreign competition is bound to enter the market! Thus in a concluding remark, Graham is honest enough to admit, in splendid understatement: ‘in both jurisdictions [ie US and EU] the thresholds for challenging a merger or acquisition on grounds that the merger creates a monopoly...have been quite high.’

It is also striking that there is no enthusiasm in either the EU or the US to work for a global antitrust authority to deal with M&A issues on a world scale. Yet simultaneously, there are strong tendencies for each to define the relevant market for antitrust cases in variable ways: if the market is judged to be global, then just about any degree of monopolisation within the jurisdiction can be justified. Yet the market definition can be reduced, often quite drastically, in the case of a foreign firm seeking an acquisition domestically which faces strong domestic opposition. And because of their huge market access power, both the US and the EU antitrust authorities are able

³¹ *ibid.* page 62.

³² *Ibid.*, page 64

to exert powerful extraterritorial jurisdiction, with the capacity to judge, say, mergers of two foreign firms with some presence in their market but with the bulk of their activities outside it monopolistic.

To put matters more bluntly we are in a normless and politicised zone. Some experts in transatlantic anti-trust openly acknowledge this. Evenett, Lehman and Steil, for example, explain that ‘antitrust is a political phenomenon and is therefore subject to all the normal interest group pressures that affect policy across the spectrum...the larger firms that will be the actual targets of anti-trust intervention are far more likely to be foreign than domestic, as the former will have considerably less domestic lobbying power.’³³

Thus, since the late 1980s in both the US and the EU anti-trust policy has become a ‘political phenomenon’ in the sense that it targets foreign companies entering the market much more than domestic firms. We will consider later on whether this mercantilist politicisation is just a rent-seeking flouting of liberal norms of efficient markets or whether these liberal norms themselves are groundless.

Free Trade Agreements(FTAs)

Another striking example of how liberal language is turned inside out is the proliferation of FTAs. These are, in reality, key instruments for the mercantilist expansion of accumulation from the main triadic centres. The key feature of them is the fact that they allow free trade only in the specified products of ‘national origin’ amongst the contracting states. Thus an FTA between, say the EU and State X will allow the specified products from State X into the EU if the products are produced either by EU companies in State X or by State X’s own territory-based productive activities above various specified thresholds. These thresholds are designed to ensure that no US or Japanese MNE could enter State X to assemble products for sale in the EU. They also give state X extremely powerful incentives to privilege FDI from the EU in its territory since only EU companies will be sure not to face barriers to entry into EU markets.

At the present time bilateral FTAs centred on each of the triadic centres are proliferating, undercutting the multi-lateral principles of the WTO. They are an evident sign of attempts by each centre to draw national economies lower down the international division of labour into dependence on one triadic centre as against the others.

High Tech Mercantilism

Despite all the neo-liberal ideology about the efficiency of free markets, about the triumph of free markets over states and about the efficiency-necessity for removing the state from any role other than policing competition, triadic state policy in strategic industrial sectors has been marked by ruthless mercantilism, not least on the part of the United States. By strategic sectors we do not mean those with military significance. We mean those which generate chain-reaction effects across many industrial sectors.

³³ ‘Antitrust Policy in an Evolving Global Marketplace’ in Simon J. Evenett, Alexander Lehmann and Benn Steil (eds.) *Antitrust Goes Global. What future for Transatlantic Cooperation* (Brookings, RIIA, 2000) pp.14-15

We will take two examples in order to illustrate this theme: semi-conductors and civilian aircraft. Semi-conductors stand at the top of the industrial food chain of the computer and electronics industries. Civilian aircraft production is the motor of a whole range of high tech components sectors which can have economies of scope leading into other industrial sectors.

Semi-Conductors

In the mid-1980s, Japan achieved global dominance in advanced semi-conductor production. It had achieved this dominance through strongly mercantilist state industrial support but the fact remained that it was producing the highest quality semi-conductors at the cheapest price.

The Reagan administration complained about Japanese mercantilism in this field. But it is worth examining US industrial policy in semi-conductors as well. The Federal Government between 1958 and early 1970s directly or indirectly funded between 40 and 45% of all industrial semi-conductor R&D.³⁴ By the late 1980s, Federal funding of semi-conductor-related research was running at about half a billion dollars a year. At the same time, over one quarter of all semi-conductors produced in the US during the late 1980s had a captive state market in US defence agencies alone. Along with such assistance would come a whole range of tax breaks and tax credits and other kinds of subsidies to boost the profitability and lower the costs of production in semi-conductors and other sectors. Thus in 1981 the US Congress passed a 25% incremental tax credit for R&D in semi-conductors.³⁵ Thus we find that the entire development of the US semi-conductor industry has been the result of massive state support.

By the mid-1980s, the Japanese semi-conductor industry had achieved global leadership in semi-conductor production with about 70% of the global market. In the face of this Japanese ascendancy, the US government did not opt for imposing the principles of liberal free trade theory on the Japanese. It opted instead for managed economics. In 1986 the US imposed upon Japan the Semi-Conductor Trade Arrangement (STA). In 1991 the STA was renewed in a somewhat different – and more explicit – form for another 5 years, to 1996. In 1992, the approach which the US used on the STA was extended to car parts. And the Clinton Administration in 1993 indicated that it would use the approach contained in the STA more widely in its economic diplomacy towards Japan.³⁶

Although much US rhetoric at the time suggested that this posed a ‘national security threat’ to the US in military terms, US military demand for semi-conductors had been, since the late 1970s, no longer a demand for the most advanced chips. The Japanese lead was rather in the civilian, commercial sector.³⁷ At the start of the 1980s, the US government started funding R&D to counter the Japanese commercial threat in what was a major policy shift.³⁸ The Reagan administration then decided to take more

³⁴ Flamm, pages 36-39.

³⁵ Flamm, page 147.

³⁶ Bob Davis, ‘Economy: Clinton Team to Suggest Import Goals for Japan as Trade Talks Approach’ Wall Street Journal, 20 May, 1993, pp A2, A11

³⁷ Flamm, page 38.

³⁸ This shift was signalled with the Very High Speed Integrated Circuit Programme. See John A. Alic et al., *Beyond Spin-off: Military and Commercial Technologies in a Changing World* (Harvard Business School Press, 1992), p.269.

drastic action in the form of managed trade. We will briefly mention the main features of this project.

*From late 1986, the US Commerce Dept worked out the prices which each Japanese chip maker had to charge for each of its products in the field of DRAMs and EPROMs (advanced semi-conductors). From March 1987, the Commerce Dept was fixing price floors for these sales for only in the US but also in 19 other markets (including 6 European markets).

*The Japanese government had to accept that by 1992 foreign companies would have a 20% share of the Japanese domestic market in DRAMs.

* MITI, the Japanese foreign trade ministry, was required to reduce both output and investment on the part of specific Japanese semi-conductor producers. Thus a MITI memorandum in April 1987 circulated to Washington stated: 'In February, MITI exercised administrative guidance to the companies to reduce production during the first quarter of 1987 by 23% below fourth quarter 1986 levels. Last month, MITI again exercised administrative guidance to the companies to reduce production still further in the second quarter to 32% below fourth quarter 1986 levels.'³⁹ And US trade negotiators gave MITI detailed demands for limiting investments by Japanese firms in new capacity well into 1988.⁴⁰

The fact that the Japanese government gave way in the face of these diktats cannot be explained purely by the economic balance of forces between Japan and the US in the late 1980s. Indeed, that balance of forces gave Japan some potentially devastating economic statecraft instruments for US against the US. Japan gave way because the US was master of the entire geopolitical context in which the Japanese state operated and the Japanese political leadership was not prepared to place that geopolitical context at risk.

Civilian Aircraft Production

Civilian aircraft production is another strategic, high tech industrial sector marked by huge economies of scale and with very large spin-offs across related sectors. In the post-war years, the British failed to exploit their opportunities in this field and American producers, above all Boeing, achieved ascendancy.

In the early 1970s the French led other West European states into the airbus consortium to mount a challenge to US dominance in this field. For the next twenty years, Boeing, which had emerged as the dominant US player, and Airbus were supported by their respective state sponsors to continue in business. According to the US government, West European governments have given Airbus preferential government loans of more than \$15bn over the last 5 years.⁴¹ According to the EU, Boeing has received around \$23 billion (€17.1 billion) in governmental development aid since 1992, mostly in the form of military and NASA contracts, research and development expenditure and tax subsidies. The total U.S. Government indirect support of the U.S. civil aircraft industry in 2003 alone was about \$2.74 billion. This represents around 11.9% of the 2003 commercial turnover of the U.S. industry. In addition since 1990 Boeing has avoided paying more than \$1.2 billion in federal taxes through the use of off-shore Foreign Sales Corporations (FSC) (a tactic ruled

³⁹ Quoted in Flamm, page 185.

⁴⁰ Flamm, page 195.

⁴¹ Jeffrey E. Garten, 'The Big Blowout. Why the Airbus-Boeing case could wreck the WTO, and how to stop it' Newsweek International March 27, 2005

illegal by the WTO). And Boeing also receives large subsidies from American state governments. Planned subsidies for Boeing's new 7E7 aircraft production amount to \$3.2 Bn from Washington State, \$0.5bn from Kansas, and \$0.35bn from Oklahoma.⁴² The EU also claims that Boeing's Japanese subcontractors, who will produce about 60% of the new 7E7—Mitsubishi, Kawasaki and Fuji Heavy Industries -- receive more than \$1 billion in subsidies from Japanese state sources. On the other side, the US government claims Airbus is moving the same way, having recently cut a deal with state-owned China Aviation Industry Corp.⁴³

In the last three years Airbus has overtaken Boeing in share of the world market. In 1993, Boeing controlled about 73 percent of the market in 1993. But 10 years later, its share of the world market dropped to 48 percent. Airbus sold 305 aircraft in 2003, compared with Boeing's 281. And in 2004, Airbus delivered 320 planes compared to 285 from Boeing.⁴⁴ Against this background, the US government has threatened to take Airbus to the WTO for illegal state subsidies and the EU has responded by threatening to take Boeing to the WTO on the same grounds. But the key point is that the reality of inter-triadic competition in high tech sectors such as large civilian aircraft is very far from the neo-liberal ideological claims assiduously promoted by both the EU and the US. And the picture in semi-conductors and aircraft is far from unique. Indeed, at the launch of Airbus's new A380 superjumbo in January 2005, President Chirac of France held up the Airbus joint government-company industrial model as the way forward in other sectors, mentioning specifically energy, transport and medicine.⁴⁵

The Consequences Industrial Rivalry within the Triad and the Current State of relations

One consequence of decades of industrial rivalry in high tech sectors within the core is that the US is no longer industrially hegemonic. It has leadership in some sectors but not in others. The claims of Poulantzas in the 1970s, cited by Leo Panitch, no longer hold good today. There is real inter-dependence of the three centres at the top of the international industrial division of labour today after all the bitter struggles by the US to weaken Japan in several sectors through imposing managed trade on Japanese producers in the 1980s and 1990s.

Another consequence is that there are bound to be further tense confrontations in this area in the future insofar as the leaders of American capitalism perceive a threat of defeat in what they regard as decisive, strategic new growth sectors (with Boeing-Airbus as simply the latest example). If, for example, a whole new growth sector emerged in say energy alternatives to oil in transportation, it could set off a new round of intense, politicised inter-state competition.

Tensions did ease greatly in this field during the 1990s for a number of reasons:

⁴² European Commission, EU – US Agreement on Large Civil Aircraft 1992: key facts and figures (MEMO/04/232, Brussels, 6 October 2004)

⁴³ Garten, 'The Big Blow Out'

⁴⁴ 'U.S.-EU Aircraft Talks Stalled Over Airbus Aid Push, People Say', Bloomberg, March 22, 2005

⁴⁵ Garten, 'The Big Blow Out'

1. The enormous profits growth for the US financial sector from the opening up of the financial sectors of other states and from the enormous expansion of world debt markets (bond markets), centred in New York and London.⁴⁶
2. US ascendancy in telecoms and IT.
3. The US boom/bubble from 1995.⁴⁷
4. The spatial expansion of capitalism into the former Soviet Bloc and the new opportunities for core capitalisms in the East and South East Asian New Growth Centre.

But all these phenomena are conjunctural, not structural.

The Attempted Anglo-American Drive for a Revolution in the Institutional forms and Culture of Capitalism

But since the 1990s, there has been a concerted effort by the United States and Britain to reshape the institutional forms and cultures of capitalism within the Triad. This can be described as a drive for a cultural shift because it involves persuading the capitalist classes of the core to reconfigure their identities by turning themselves into rentiers or representatives of money capital. In this way their interests will shift in the direction of maximising returns on royalties. It will also involve a cultural shift from the relatively small differentiations of income between managers and industrial workers in these countries.

Money capital advances money to others in order to make more money in the form of royalties (returns on bonds, shares, bank loans, mortgages and their derivatives) or capital gains. Rentiers earn their living from such royalties and capital gains.

One of the most striking features of Anglo-Saxon capitalism over the last 20 years has been the rise of the power of the rentier and the money capitalist. Ever since the emergence of the joint stock company the rentier has had an important place in capitalism (and earlier in funding state activities, especially wars and speculative ventures by state trading companies).

But since the late 1960s, there has been the dramatic growth of the power of the money capitalist and rentier interests in the Anglo-Saxon world.⁴⁸ Chandler highlights this phenomenon at the end of his book, *Scale and Scope* and notes its historical novelty. His account highlights a conjunction of 2 trends in the US, one in the industrial sector and one in the rise of rentier interests, via mutual funds and pension funds. His remarks on the industrial sector are particularly intriguing. He notes the appearance in the US industrial sector in the late 1960s of conglomerates and of a mania for mergers and acquisitions, and alongside this he notes the cutting of the link between the top management of US industrial companies and management at the operating level.⁴⁹ In the US case from the late 1960s, top managements then engaged in both mergers and sell-offs to generate maximum cash returns.

⁴⁶ See the work of Gerard Dumenil and Dominique Levy on this.

⁴⁷ But see Bob Brenner, *The Boom and the Bubble*

⁴⁸ I have attempted to describe this in *The Global Gamble*.

⁴⁹ The only parallel he can find for this is in German capitalism in the chaotic conditions just after World War 1 when there was the Konzern movement, a trend similar to the conglomerate phenomenon, but a trend which disappeared with the end of the hyperinflation. Chandler, page 622

The conjunction of this trend with the rise of the mutual funds and pension funds, trading ever larger blocks of shares on the stock markets then began to generate an entirely new market in the buying and selling of corporations.⁵⁰ The mutual and pension funds were the new owners of US industry and they had their own active agenda for managing it in the service of short-term returns. This trend was further strengthened in the 1980s with the huge rise of the US bond markets and especially of the junk bond market.

Thus we can find the rise of a rentier/money capitalist trend which embraces not only the fund managers and investment banks but also top management of industrial corporations.

One way of thinking about this trend is to view it as a distancing of the leading sectors of the capitalist class from any close connection to the actual production of use-values in any particular sector. Money capital tells all sectors to maximise short-term share price or risk either capital flight or a hostile buy-out. The use of junk bonds to finance buy-outs, first started by outsiders in the US in the early 1980s was then adopted by the Wall Street mainstream in the late 1980s.

Many have seen this trend as a way of generating a powerful new kind of offensive against labour, involving ‘downsizing’, downward pressure on wages, the lengthening of working hours and the removal of employment rights. All this is true. It has also involved an extraordinary enrichment of both top industrial management and the financial services industry in the Anglo-Saxon world.

There has been intense pressure from the American state as well as the American business class and business media to spread this model across the rest of the core. The attractions of this new capitalist culture for other capitalist classes are obvious: the huge potential pecuniary gains for individual capitalists are obvious. With the privatisation of public utilities in other centres there has also been a huge expansion of stock market listings and of stock market activity, encouraging the growth of the money-capitalist/rentier groups across the core.

But there are other dimensions of this drive: the effort to harmonise stock-market regimes, corporate governance regimes and accounting standards along Anglo-American lines and to open up all economies to the movements of short-term funds in and out of jurisdictions and to enable financial operators to work with national treatment in other jurisdictions.

All this is legitimated as a trend towards ‘economic globalisation’ and as the development of a much more ‘efficient’ form of capitalism. Yet it is, in reality, a trend towards expanding Anglo-American institutional regimes and cultures across the core. And when we look at the differences between the American internal institutional regimes and those of, say, Germany and Japan during the whole post-war period, the most striking difference is the way in which the financial-industrial linkages in Germany and Japan were precisely geared towards a long-term effort at industrial upgrading and investment that would compensate for the much larger scale of the

⁵⁰ Massive growth in the ratio of shares traded to total shares on NYSE: early 1960s 12-16%; mid-1980s over 50%. Rise of block trading: 1965 only 3.1% of total trades; by 1985 51%. The rise in the volume of total transactions annually on NYSE: 1.5bn in 1965; 27.5Bn in 1985. All this meant the rise of an institutionalised market for corporate control. Chandler, page 625.

American internal market. The American economy during its period of industrial ascendancy had not required such a concerted financial-industrial linkage. And by abolishing these linkages in Germany and Japan, Americanising their institutional structures, American capitalism gains a strategic national advantage over these other centres.

More than that, the Anglo-American systems contain huge pension funds whose enormous financial resources can be mobilised for hostile buy-outs in, say, Germany or Japan, if their systems of corporate governance make them vulnerable to such hostile buy-outs. Thus the supposed disconnection between money-capital and the production of use-values in particular sectors may be far from complete. On the contrary, the shift to 'financialisation' and away from industrial capitalism may be, instead, a new strategy for pursuing industrial competition by other – financialised – means.

Here we see the way in which US market forces and the US state can work together using different languages but achieving common goals. For US money capitalists, German and Japanese companies are currently grossly undervalued in stock market terms, precisely because managements do not extract vast streams of income from their productive activities for themselves and the shareholders. If these companies were restructured on Anglo-American lines much greater streams of value would go to the rentiers and thus the market value of the companies would soar. This gives US financial operators a great incentive for seeking to buy these companies. Insofar as they can buy them at something like their existing stock market value, the buyers can make an enormous killing. At the same time the restructuring of these companies in that way will precisely make them unable to engage in long-term strategic investment and upgrading to compensate for US companies scale advantages. By applying the US corporate governance regime in a huge integrated economy to companies in much smaller integrated economies, US capitalism will gain a key advantage.

This is precisely how the American financial globalisation drive is viewed by powerful sectors of the ruling classes of both Germany and Japan. The experience of South Korea in and after the East Asian crisis of 1997 strongly confirmed these concerns as foreign companies exploited the US Treasury's restructuring package to grab large chunks of Korean assets at knock-down prices. The (British) Vodaphone take-over of Mannesmann in Germany in 1998 aroused similar concerns in Germany and led to the criminalisation of the Mannesmann management for receiving large personal pay-offs in exchange for the acceptance of the deal – something considered normal in the Anglo-Saxon world. Exactly the same battle is being waged in Japan at present.

It is evidently the case that the Anglo-American coalition has powerful allies in continental Europe and in Japan. Both the Bank of Japan and the ECB have been using tight, deflationary monetary policies to exert pressure on the capitalist classes and on labour to restructure in an Anglo-American direction.⁵¹ These central banks reflect precisely the interests of money capital/rentier interests and exert an enormous political influence on economic life. But it would be quite wrong to imagine that this

⁵¹ See two very important studies by Richard Werner: *Princes of the Yen*, and *New Paradigm in Macroeconomics*.

struggle is already won by the Anglo-American camp. Indeed, in Europe there has been a fifteen-year battle over efforts to establish an Anglo-American form of corporate governance in the EU, enabling hostile buy-outs, with the British leading the battle, supported by smaller EU capitalisms like the Dutch and Belgians whose big capitals expand through mergers and acquisitions elsewhere. But in 2003, the German government seized on Britain's isolation and possible defeat on working hours rules in the EU to offer a deal: in exchange for German support for Britain to keep long working hours, Britain should support the German stance against a corporate governance regime allowing easy hostile buy-outs. The British accepted the deal. An unnamed Bush administration official declared that the decision meant that Germany was not 'open for business'. Meanwhile in Japan in 2004 successful resistance was mounted to US pressure for firms engaging in hostile buy-outs to be able to offer their shares as payment for acquisitions. At the same time, there are indications that Japanese capitalists are prepared to shift to the American model of corporate governance just so long as ownership of companies remains mainly in Japanese hands.

B. International Monetary Relations After Gold

International economic activity under capitalism requires an international money standing 'above' the domestic currencies of states.⁵² In the early phase of the development of capitalism, this problem was solved by using commodity money – gold and silver. The value of both was constrained at the margin by their production cost and they thus contained an intrinsic value as commodities. They could thus stand above national currencies and form the unit of account for international transactions and form the basis for establishing exchange rates between different national currencies. But using a commodity money was very restrictive given the limited supply of these commodities, so international money came to be a mixture of a top national currency and gold: first the gold-sterling system, then the gold-dollar system up to 1971. The top currencies enabled a huge expansion of international credit money in addition to gold and thus facilitated an enormous expansion of international monetary emission. At the same time, the top currency state guaranteed the exchangeability of its currency for gold at a given, fixed exchange rate. These arrangements proved their worth for a substantial period of time in the history of international capitalism. The top currency state gained very large seignorage privileges from its role but also faced significant constraints on its economic policy: it had to keep its currency 'as good as gold'. This ensured that capitalists everywhere could make rational calculations of the likely profitability of any international transactions which they might wish to engage in: they could use the top currency as the measuring rod of their likely returns. And the top currency could also act as a store of value for states and individual capitalists.

At the same time an international monetary system under capitalism requires mechanisms for tackling imbalances in international payments, for adjusting exchange rates, and for tackling international panics, credit-crunches and other such disturbances. These are highly politicised issues and tend to push capitalist states towards seeking some kind of collegial world state authority for handling these issues in inter-state relations. Yet it is extremely difficult for capitalist states to commit themselves to accepting their own subordination to such an authority. There

⁵² Barter relations do, of course, take place under capitalism, but they are extremely inefficient and confined to trade in goods.

was such a collegial management system with rules under the pre-1914 Gold Standard, but inter-war efforts to rebuild it failed: Britain was no longer strong enough to lead, while the US, though strong enough was unwilling to do so. After the second world war, the new Bretton Woods supranational authority was, in effect, imposed on the other main states by one state – the United States – which possessed, at the time all the capacities to impose such rules. The British negotiator with the US Treasury, Keynes, was unable to persuade the Americans to establish a genuinely supranational state-like monetary authority issuing its own international credit-money and policing the international monetary system, tackling international crises, tackling chronic imbalances and deciding on exchange rate adjustments.

But the Bretton Woods rules were at first too restrictive for the European capitalisms, which thus avoided their full application until 1958. They were then found to be too restrictive for the US, above all because they required the US either to manage its own economy so that the dollar remained as good as gold or that the US authorities combine domestic retrenchment with a negotiated devaluation of the dollar. So the Nixon administration decided to scrap the Bretton Woods regime and, for the first time in the history of capitalism make the currency of one state the international money with accepting any policy constraints on US management of the dollar. American political power gave it the ability to block any alternative arrangement, there was no other alternative international money, and the US's successful manoeuvres to liberate private financial flows and to make New York and its London off-shore satellite financial market the dominant international financial centres enabled dollar dominance to be maintained.

But the result has been a structural source of tension and conflict in the IPE. These tensions derive first from the refusal of the US authorities to create the conditions for stable exchange rates between the main currencies; or to put the same point another way, the US Treasury's readiness to swing the dollar's value upwards and downwards in line with the perceived macro-economic management requirements of the US alone. This makes international economic exchanges denominated in dollars extremely hazardous for countries that do not confine almost all their international transactions within the dollar zone. The huge swings and volatilities in the forex markets have generated an enormous set of derivatives markets but these do not tackle the problem since hedging contracts last no more than 6 months.

In boom phases of the US economy, the US authorities encourage the dollar to rise, sucking in capital from abroad, keeping interest rates and product market inflation low; in recessionary phases, the US authorities seek to swing the dollar down, reducing their dollar-denominated international debt obligations while seeking to generate a devaluation-driven mercantilist export drive. These swings radically transform the macroeconomic conditions of the rest of the world, but in the absence of an alternative international monetary unit, the US can hope to maintain dollar dominance.

At the same time, the US authorities have exploited dollar dominance to allow a large gap to arise between its state resource commitments to domestic US constituencies and its state fiscal capacity to pay for these commitments. Successive US administrations have felt able to do this on the basis of an assumed permanent dominance of the dollar. They can thus hope to borrow endlessly from abroad in the

knowledge that the debts can be serviced in dollars, which the America state itself produces.

And the dollar's dominance has also led successive US administrations to ignore the US current account constraint, allowing huge deficits in that field, deficits which tie foreign producers into dependence on market access to the US and thus give the US leverage over the shaping of these exporters' internal political economy regimes for the benefit of the expansion of US capitals.

This kind of imperial dollar policy then generates precautionary mercantilist policies on the part of the other core centres, policies geared to maintaining permanent current account surpluses, strengthening their credit power, generating lower interest rates and adopting a deflationary macroeconomic policy bias.

While the Japanese sought to protect their capacity to generate current account surpluses by deliberately preventing the emergence of the Yen as a reserve currency (thus hoping to prevent steeper yen revaluations) the German authorities have been prepared to allow the Dmark to develop a reserve role, forming first the Dmark zone (the EMS) and later Euroland. This then poses a significant potential alternative reserve currency to the dollar.

These strains in the international monetary field have, of course, had extremely negative impacts on countries outside the core. And while all monetary authorities have a strong interest in maintaining an open world economy and the monetary conditions for continued expansion of the world economy, the contradictions of this system could explode in either the international economic field or the international political field or both.

We can spell out some possible scenarios:

1. The increasing evolution of the international economy into three regional blocs based on regional moneys (with the emergence of an East Asian monetary zone – something which the Japanese state is clearly now seeking to establish). This would inevitably threaten dollar dominance.
2. The establishment of a fixed exchange-rate regime between Euroland and East Asia. This would sharpen the trend in (1).
3. A precipitate collapse of the dollar in the face of which the other centres refused to provide unconditional dollar defence, generating strong tendencies towards imposing a protectionist-mercantilist trade regime in the US.
4. A an international financial crisis in which co-operation from the three main centres broke down.

None of these scenarios will necessarily materialise. But all are perfectly possible. And they constitute a real, structural source of tension in the IPE.

PART 3: A NEW STRUCTURAL SOURCE OF CONFLICT IN POLITICAL RELATIONS WITHIN THE CORE

In Part I we argued that the distinctive features of capitalist international politics are the way leading capitalist powers seek to build political communities of states under their leadership. This is achieved in the first place by becoming the protector power

over the state or its existing internal regime. It then involves constructing a political identity for the new community of states by generating common political values shared by both the protector state and the subordinate state. These common values then have the effect of legitimating the leadership of the dominant state over the subordinate state. This was precisely the system employed by the US to turn the entire capitalist world into a single political community under its leadership after the second world war. But with the collapse of the Soviet Bloc this political 'empire' has been damaged in two ways. The protector mechanisms have been weakened. And the common political value system legitimating American leadership of the community has been undermined.

The post-war political system in the Capitalist Core: a Community under Primacy

I have written about the political system of the core elsewhere and will confine myself here to a few very brief points.

The key concepts in American post-war grand strategy were, in the political field, those of what, in the jargon of American grand strategy is called 'primacy': this means the direct US management of the security problems of the other main centres; secondly, the concept of 'shaping the security environment' of the other main centres in such a way that they would find themselves wanting US protection and primacy; thirdly the concept of 'hub-and-spokes' alliances in the military-political field, ensuring that the other centres did not join up with each other in regional caucuses that could thus acquire autonomy and mount their own joint efforts to build their own spheres of influence.

All these concepts match the US experience during the Cold War. The US victory in World War Two gave the US primacy over Germany and Japan and the militarised confrontation with the USSR then consolidated that primacy for 40 years. The US shaped the environments of Germany and Japan through the militarised confrontation with the USSR in such a way that their very survival depended on the protection offered by US strategic services. And the US organised its security alliances at each end of Eurasia as hub-and-spokes systems. In NATO for example, there could be no European military-political caucus. West European states military-political relations with each other had to pass through Washington. French efforts to challenge this failed repeatedly.

These military-political arrangements formed a crucial background to the leadership role which the US played in the IPE. Even when the US was weakened in relative industrial power and in international financial capacity, it could maintain its dominance over the international political economy regimes, acting unilaterally in the monetary field, engaging in what Baghwati has called 'aggressive unilateralism' in the trade field, etc. It could do so, because it knew that if political conflict within the core escalated, each rung of the escalation ladder led towards the sphere in which the US remained overwhelmingly dominant: the military-political sphere.

It is important to note that US military power was fungible in disputes with allies because the allies knew that the US could make moves in their environment which could make them more vulnerable or could exert negative pressures upon them. US military-political dominance was never used to directly threaten its allies militarily.

One crucial ability was the ability of the US to configure the political environment of their allies in such a way that they would feel dependent on the US to protect their security. The other crucial ability was then to draw them into a political community of shared political values legitimating US dominance with the political community of states.

The Breaches created by the Soviet Bloc Collapse and the Rise of China

The Soviet Bloc collapse then produced a paradox: on the one hand it gave the US a military dominance over all other states in the world without historical parallel; but on the other hand, it caused two serious problems for the political dominance of the US:

1. it greatly reduced the dependence of the West Europeans on the US for their security and it somewhat reduced – though to a lesser extent – such security dependence on the part of the East Asian centres of capitalism. This reduction of dependence was a double one: the end of the threat of a war with the Soviet Bloc; but also the end of the threat from radical leftist movements to their capitalist property around the world.
2. it destroyed the free-world –Communist totalitarianism cleavage which generated the political values which defined the US's political community.

The 1990s thus witnessed geopolitical fluidity across the whole of Eurasia, as Russia and the former Soviet Bloc moved towards capitalism and as China did the same. Two possibilities arose: first that new regional security arrangements could exclude the United States. For example, with Russia and the former Soviet Bloc establishing a collective security regime with the West Europeans or for example, with China and Japan establishing a new East Asian collective security regime. But secondly, that whatever the precise security configurations, the role of US military power as valued coinage in international politics could be massively devalued as security issues could be solved through transparent, Treaty-based collective regimes.

As a result of these new challenges, successive US administrations have sought to build an entirely new configuration of political relations across Eurasia, one that would ensure a series of new mutual dependencies on the part of all the great powers there on the US. Simultaneously, the US has sought to maintain and enhance the value of military capabilities in international politics.

It has had mixed results. The West Europeans engaged in what I call 'subversive bandwaggoning in the face of US efforts to make NATO the central political institution in the new Europe. They rolled with the thrust of NATO enlargements and US manoeuvres in the Western Balkans. But they simultaneously sought to build their own West European political caucus (through the CFSP and the ESDP). They also had a diplomacy of military-power devaluation. All this buttressed their construction of Euroland and of an integrated West European centre. The US has had much more success at keeping Japan and China divided but it has also faced attempts to devalue military power there, notably from South Korea.

At the same time the Clinton administration failed to find an effective transnational set of political values that could bind the capitalist world into a political community governed by shared values legitimating American leadership. The Clinton administration tried to promote the concept of a political community united by liberal human rights and democracy and campaigning for a cosmopolitan triumph of

these values. But this turned out to be worse than ineffective. In the first place, the European Union had the capacity to present itself as a far more principled and effective promoter of human rights and democracy on a global scale. Secondly, it proved able to turn these values against aspects of US militarism (with the ICC threatening to criminalise various aspects of US targeting and various US weapons systems). And the whole campaign fitted with a more general effort on the part of the EU to marginalise the use of military force to humanitarian and peacekeeping operations while trying to insist on UNSC mandates for aggressive military action (except where the Western Balkans was concerned).

The Bush administration has attempted to fight this challenge with this with its campaign against 'international terrorism' and rogue states with WMD. This has also assisted the Bush administration to revalue military power, something it has assiduously pursued by abrogating, weakening and blocking a whole host of treaty-based arms control and arms reduction regimes. And the more vigorous US thrust into Central Eurasia and into the oil centres of the Gulf and Caspian have evidently been aimed at creating a new range of dependencies on US power on the part of all the Eurasian powers. This drive for war against Iraq was also evidently articulated in such a way as to split the West Europeans and to factionalise Europe in such a way that its future unity would depend upon American permission.

The ultimate goal of this Washington strategy would be to achieve what could be called American global government, to be legitimated through a reformed UN and through what the Washington jargon calls the 'revival of strong alliances' – hegemonic political alliances with allies. Indeed the Bush campaign should be viewed as a tactical operation towards the strategic goal of refiguring the UN and the US's own alliances in such a way that the US can re-attach itself to a political community of shared values as a way of re-legitimising its global dominance.

But while this is still not achieved we have a structural source of intra-core conflict in the political field, with France and Germany still trying to build a semi-autonomous political community of shared political values under their leadership with a Europeanist base but with a universalist-cosmopolitan mission statement. They are seeking to control their own immediate environment and to establish their own political autonomy with a view to seeking a joint leadership of a common expansive political project with the US. The leadership of the US capitalist class is seeking to resist this and restore US primacy, this time on a truly global scale.

CONCLUSION

The aim of this paper has been to suggest some key systemic features of capitalist international politics and international economics and to point to some structural sources of continuing conflict within the capitalist core. I have argued that these exist in the economic field of industrial competition, in the economic and political field of international monetary relations and in the political field of capitalist political community-building.

The paper contains very large gaps: it abstracts from core capitalist relations with the rest of the capitalist world, yet these relations are obviously extremely important. It also does not explore the bases of cooperation between the main capitalist centres.

And one of these bases is surely the fact that all three core centres and particularly the two Atlantic centres, can frequently find a large range of important ways in which they can ease tensions between them at the expense of countries in the South. They can also pursue mutually advantageous strategies towards the South – an evident reality in their common efforts in the International Financial Institutions and in the WTO.

If the arguments in this paper are more or less right, then I think Leo-Panitch's and Sam Gindin's argument -- that we already have an integrated US empire across the core in which the US leads a global capitalism – is premature. At the same time, the approach of this paper does not point towards an irreversible hegemonic decline on the part of the US.

On the other hand, this paper says nothing about the rise of China and it is perfectly possible within the logic of this paper that some decades hence China might mount a formidable challenger to US dominance. But to do so it would have to turn its internal scale potentialities into a reality in the industrial field and it would have to find a way of organising a hegemonic transition, perhaps by becoming a generator of further antagonisms within the current core while adopting a strictly pacific posture in international politics – the tactic which the US the US itself pursued in the inter-war period.

Throughout this paper the term imperialism has not been discussed. But we would argue that it should be understood as effective control of the internal political-economy regimes of other capitalist states and effective control of the political-economy and military-political linkages of these other states with the rest of international order. But if such a definition of imperialism was adopted it would make the concept a relative one, involving more and less degrees of imperial control. But some such concept is needed in order to enable us to grasp the ways in which powerful capitalist states seek and achieve stable dominance over other capitalist states. Otherwise we risk falling either for the foundationless claims for norm-based solutions to inter-capitalist relations pushed by liberal theorists or for what Justin Rosenberg has rightly called 'the follies of globalisation theory'.