Today's Imperialism - Uniquely American

How credit and debt put the United States on top... so far

**By
Stan Goff**

[This is the third installment of Stan Goff's report on the political economy of US imperialism, a series which started with a critique of American policy toward Iran: "Persian Peril." That impending lunge may or may not occur under the current Resident, but the eventuality is more than likely. Goff's analysis is strikingly sophisticated, drawing on the World Systems Theory of Immanuel Wallerstein,[1] Rosa Luxembourg's enduring insights into capital and power, and Goff's own considerable experience with the machinery of American hegemony.

As this article goes to press in the new issue of FTW's print newsletter, we learn that India has just decided to sell $120 billion of its US Treasury reserves: "In addition," writes Edward Luce in the Financial Times, "India's record foreign exchange reserves represent a large "opportunity cost", [Indian officials] say, since most of the money is invested in low-yielding US Treasury bonds. 'We are subsidizing the American economy,' said one official. 'These are scarce resources that can be put to better use.'"[2] And there's more news like that. China has just raised interest rates for the first time in 9 years, so American suppliers of China's vast appetite for raw materials are seeing their stocks bounce down. There's a big difference between China's rising interest rates and ours: they're trying to rein in their runaway growth, while we just want to slow the inflation of our empty economic balloon.

How can an isolated individual understand what's going on, without the benefit of a fully-funded and freethinking university system? Follow the map: follow the oil, and the gold, and the guns, and the drugs. Follow the money. -- JAH]

The United States is dominant in the world - materially dominant, and not merely financially dominant. But the theories of Hilferding, Hobson, and Lenin on imperialism do not accurately describe the actual character of US domination unless we selectively censor a lot of information - as certain sectors of the left have been wont to do.

From the very beginning, the Hilferding-Hobson-Lenin theses centered on the needs of monopoly capital as the driving force that led to inter-imperialist rivalry, and to the First World War. These theses held true for Europe and the stage of imperialism that they witnessed.

But as Michael Hudson exhaustively documents in *Super Imperialism*, the United States began in the First World War by exploiting this rivalry itself to gain advantage, and the predominant actor was not monopoly capital, but the US state. While there is no doubt that the state was acting on behalf of its own capitalists, it was not doing so in a largely reactive way but in a leadership role.

The US did so first in the role of national creditor, then - even more stunningly - in the role of national debtor.

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While the US had employed direct conquest and domination in its own hemisphere, it was not drawn into the inter-imperialist rivalry that sparked WWI. So the US did not find itself predominantly "exporting capital" to its colonies via private institutions, but exporting it to the advanced capitalist states, particularly Great Britain, as loans for their war with the Germans and Ottomans, loans approved and guaranteed by the United States government.

The United States stayed out of the war until it became likely that without US intervention, the Allies would lose and their debts to America would remain unpaid. Once the war was over, Great Britain and France were heavily indebted, and the US - far from being the benevolent post-war ally - behaved much like any Brooklyn loan shark, bleeding its former allies so severely that they in turn wrecked the post-war German economy with reparations to assist the allies in their debts. This led directly to the rise of Nazism and the Second World War.

Whereupon, the US began its participation, *again*, not as a fellow combatant, but as a creditor to the other allies. It is now very clear that Franklin Roosevelt developed financial designs on the colonies of the British Empire, and that he maneuvered throughout the war to let others - particularly the Soviet Union, but also England and France - take the brunt of Hitler's aggression to weaken them, while he built up the geographically war-immune US industrial base, and positioned the US to be a post-war creditor and *the* new super-power.

It is a demonstrable fact that England has been a satellite of the United States ever since the First World War, and this accounts for the unsavory affinity of Tony Blair's lips for George W. Bush's faux-cowboy ass. Tony will eagerly jump aboard the bandwagon to attack Iran soon.

Britain was the principle (but not the only) target of US post-war loan-sharking in the 20s and 30s. Prior to the 1929 crash, the US bled the British Empire like a financial vampire, driven more by an archaic banker's ruthlessness than by any prescient self-interest. In fact, the US state had no idea at the time that they were becoming the principal cause of what would be the world's most destructive war only two decades later.

After the speculative crash of 1929, with the US in the worst economic doldrums it had ever experienced, and with significant sectors of the US working class looking with great interest at Russia's example from 1917, Franklin Roosevelt was elected the 33rd President of the United States in 1933, with a mandate to take extraordinary measures ostensibly to relive the suffering of the American working class masses, but more importantly - from the point of view of US elites - to take the increasingly revolutionary edge off of their agitations.

Roosevelt then became the first president to abandon the gold standard and conduct a cold-blooded strategic devaluation of the US currency as a weapon against its putative allies in Europe. This was a policy of deliberate inflation domestically to raise prices as part of his domestic pre-Keynesian overhaul, but it further battered the European exporters, especially Britain, who needed to export to the US in order to acquire the dollars to pay their compounding WWI debts.

This was the first *intentional* foray into state-initiated economic warfare using currency as a weapon, and it displayed just a glimmer of understanding that in state-to-state economic competition, the central banks would become the primary battlefield. In the competition between private capitals, the state would eventually become the referee to ensure the health of the whole, and one state would dominate the general direction of global capital accumulation. But this was only a glimmer then.

The Law of Unintended Consequences caused WWII, and hit the US with an even deeper economic crisis. The combined refusal of the US to negotiate new terms with the Europeans for repayment of war debts and the strategic devaluation of the gold-free dollar led to a series of competitive devaluations of European national currencies - a destructive race to the bottom - that ended up hitting the United States like a tsunami.

Consistent with the arguments of Rosa Luxemburg and later world system theorists, this period of economic disaster in the capitalist metropoles loosened their exploitative grip on the under-developed periphery. Andrew McKillop wrote that:

> *Through 1929-35 or 1929-36 in some countries of the "civilized world" there were*

> *unremitting falls of activity in 'key sectors.'*
>
> *The uncivilized world was however less than concerned by the event ... it gained. (A. Gunder Frank, S. Amin and suchlike will give you… the related and unrelated sequences of economic change governing metropole-colony relations). Simple facts and figures show considerable economic growth in the 'colonial South' of the 1929-39 period.*

This strengthened many of the colonies even as their colonial ruler-states were being weakened, and contributed to the creation of conditions that would lead to the wave of national liberation movements that were folded into the Cold War dynamic later on. This was unanticipated by the US, even as its assault on the British was coldly calculated. The American intent was never to take over the formerly British (and French, German, etc.) colonies, but to replace the Pound (Sterling) as the world reserve currency, bringing not only the peripheral "South" under its sway, but Europe itself, beginning with Great Britain.

Michael Hudson writes:

> *It would be false to say that the United States provoked World War II out of malice or out of knowledge of the results of insisting on repayment of its war debts by a world utterly unable to repay them… intolerable burdens that the United States imposed on its allies of World War I and, through them, on Germany. Every US administration from 1917 through the Roosevelt era employed the strategy of compelling repayment of these war debts, above all Britain's. The effect was to splinter Europe so that the continent was laid open politically as a possible province of the United States.*
>
> *Private finance capital could not have achieved that end… [but] the world tumbled into a depression. Not only did the United States not escape the Great Depression, it became the principle sufferer from a collapse of its own creating… The first great foray of U.S. governmental finance capital into world power politics thus ended in ignominious failure, and ultimately in a war [with] dimensions vaster even than World War I.*

Roosevelt was a determined man, and after implementing heroic Keynesian measures to ensure the political stability of the United States, he turned the lemon into lemonade through his carefully calculated commitments of the US to World War II.

The Lend-Lease Act, by which the US supported the Allies without troops in the Second Word War for almost two years before it intentionally provoked the Japanese into the attack on Pearl Harbor, was an instrument that just as intentionally broke down the British Empire with debt for the purpose of dissolving the Imperial Preference - a set of relaxed trade rules within the British Empire - in the commonwealth. This set the stage for the post-war displacement of the Sterling as the global reserve currency by the dollar.

The intent was never to destroy the British, any more than it was to replace the direct European colonial rule that World War II would mortally wound. It was to bring Europe and ascendant Asia under the sway of the United States as sub-imperial powers in a new global hierarchy that would extend the influence of the US state beyond anything ever yet imagined by former empires - in a qualitatively new way.

The British were subsumed by the United States into the financial pole of capital, and were eventually reduced to a US financial satellite on the border of Europe. This goes a long way toward explaining the seemingly inexplicable subservience of successive British governments in toadying to the US - even in harebrained military adventures like the current Iraq quagmire. The UK has now been transformed into a financial and military appendage of the US state.

Mark Jones (1999):

> *The British working class has been restructured out of its birthright and out of its collective identity. The country is now a fiefdom of [US] international finance capital, its working class little more than servitors of the City [of London - a banking consortium], which has now consolidated its national hegemony while*

> *totally internationalising itself.*
>
> *The country now exists as an adjunct of the City. Apart from finance capital, Britain's most successful trades are the Intelligence Service, the Armed Forces and the arms industry...For this reason, the world slump which is now in its early stages will have peculiarly sharp social effects in Britain.*
>
> *Britain's role as the world's largest financial offshore island, the world's leading money-launderer (as much as $200bn of narcodollars and dirty money in some years is washed in the City's giant laundry), its self-appointed segregation from Europe and refusal to participate in EMU (economic and monetary union) means that the fate of sterling, pummeled between the euro and the dollar, will likely be grisly... The disproportionate weight of banking, finance and transnational corporate capital in the British economy means that the effects of crisis in these sectors will spread with lightning speed and devastating effect through what passes for the specifically-national economy.*

Gowan noted how the US actually used the City of London to break down the post-war Bretton Woods system after the Vietnam War almost bankrupted the United States. "It is true that the Nixon administration was able to exploit a breach in the Bretton Woods system, Gowan writes, "that had already existed since the 1950s: the international role of the City of London in financial transactions." For the details of this, see Gowan's aforementioned extensive essay [Peter Gowan, *The Globalization Gamble - The Dollar-Wall Street Regime and its Consequences*, at http://www.gre.ac.uk/~fa03/iwgvt/files/9-gowan.rtf].

The Nixon Revolution

Why the Left is wrong about "money for people and not for war"

From the Civil War until World War I, the US had built up its industry to surpass the British. The period from 1914 until 1939 was a period of continuous and profound crisis, during which the US was maneuvering to expand its influence throughout the world at the expense of the European capitals - in particular the British. The Roosevelt administration had imposed what Gowan called "repressive measures on the *private* financial pole of capital" in order to regain the monetary stability necessary to lay the foundation for a fresh upwave of capital accumulation after the war, using *government* finance capital in the international arena. Those stabilization measures were codified at Bretton Woods in 1944, where the debilitated Europeans consented to a new global system in which the US would be "first among equals," in a system that fixed the dollar to gold and established periodically negotiable but fixed currency exchange rates, precisely to prevent overheated currency speculation, but also to establish dollar seignorage across the planet. (In fact, there was little that resembled "equality" in the Bretton Woods institutions - the International Monetary Fund and World Bank - when the US had a controlling plurality and exclusive veto power.) The fact was not unnoticed that during the run up to and conduct of the war, the US Treasury Department had absorbed the largest pool of gold in history.

The United Nations was established at the behest of the United States - who had earlier rejected the League of Nations - indicating the new US willingness to incorporate multilateralism into its imperial blueprint, and as a politico-diplomatic adjunct to the IMF and World Bank.

The Marshall Plan was implemented as a bulwark against the "spread of communism," simultaneously a genuine fear among many elites as well as a new form of conflict with which to discipline US satellite states. The Plan also provided the US with viable overseas sub-imperial investment conduits.

But there was another dimension to this blueprint, and that was the goal of unchallengeable military superiority, as a way of both backstopping and expanding the newfound US international influence. NATO was organized, and US bases proliferated in Asia, all under the guise of containing Communism, but with the practical result of creating even deeper dependency on the sub-imperial Japan and, using the Anglo-American bloc, on Germany and the rest of Europe.

The two pillars of US power were US *government* finance capital and the US military - both direct functions of the state. Contrary to the Hilferding-Hobson-Lenin thesis, the US state - and not "monopoly capital" - was in the driver's seat.

It is worth noting here that the US state has "driven" the system into crisis that would have been avoided - though different crises would have appeared - if short-term economic interests had been the policy locomotive. Instead, Korea and then Vietnam led directly to the transformation of military-monetary *creditor* imperialism into the current system of military-monetary *debtor* imperialism.

In its attempt to fight-Communism/extend and consolidate US influence in Asia, the US embarked on two costly wars, one that was fought to a stalemate in Korea, and one that resulted in a shattering and domestically destabilizing defeat in Vietnam. While these two wars undermined the myth of US military invincibility and threw gas on the fires of national liberation movements, they also converted the US from a net creditor in the world into a net debtor. During Vietnam, in particular, with the French leading the way, claims on US gold created a grave danger to the dollar, partly because the vigorous post-Marshall Plan economies of Germany and Japan had converted the US from a net exporter into a net importer. The combination of both - a debt and a trade-deficit - came to head under the Nixon administration.

This became a new nodal point in US post-war imperialism, and it decisively ended the post-WWII upwave of domestic prosperity.

In one of the boldest and most brilliant political moves of the century, the Nixon administration played "chicken" with the rest of the world, and unilaterally abandoned Bretton Woods. It simply quit the gold standard and fixed currency exchange rates, in effect daring the rest of the capitalist world to run on the dollar. Nixon calculated that dollar hegemony as a global system was "too big to fail" for the rest of the world, and the rest of the world backed down. We had now entered the stage of debtor-imperialism.

This abandonment of gold and fixed exchange rates decisively lifted the New Deal private "financial pole repression" regime, and it was followed by a series of strategic devaluations of the dollar that wiped billions of dollars of US foreign debt off the books in Germany and Japan, both of whom had to sit by and fume helplessly.

This also set the stage for taking advantage of crises generated by currency speculation for US capitals to penetrate markets throughout the world, using the IMF as a lever with its conditional emergency loans. This "technique" was pioneered by the Reagan administration in response to the Mexican currency crisis of 1982.

Hudson's book, *Super Imperialism*, describes the US-IMF relationship in great detail, and it is strongly recommended for anyone who wants to understand exactly how that relationship developed.

These IMF *structural adjustment programs* (SAPs) are in effect a loan-sharking operation of unimaginable magnitude imposed on almost 70 poor nations, and they consolidated dollar hegemony in its present form. The ballooning and essentially un-payable debts of debtor nations (with the US as the sole exception) are denominated in US dollars, and have inexorably grown into larger and larger fractions of the national outlays of peripheral economies. This obligation - in the face of a crushing international economic sanction threat - to service burgeoning external debts using US dollars is precisely why these national economies are pressured to almost wholly export to the US - now the world consumer of last instance - leaving local populations to rely more and more on the increasingly stressed household, subsistence agriculture, artisan, and primitive accumulation sectors of their own economies (as Luxemburg said) for plain survival.

This debt-leverage system in the imperial periphery augments the Treasury bill extortion of European and Asian sub-imperial centers, and both systems are guaranteed in multiple dimensions by US military power.

But this system is itself now exhausted, as was indicated by the Asian meltdown's unintended threat to the US economy and by the dot-com bust of 2000. This same debt-liquidity crisis is reforming now in the US as a real estate bubble that will just as certainly burst.

[1]For a quick overview of Wallerstein's approach, see http://www.fordham.edu/halsall/mod/wallerstein.html. For his most recent work, see The Decline of American Power: The U.S. in a Chaotic World (W.W. Norton, July 2003).
[2]See http://www.moneytec.com/forums/showthread.php?%20postid=74258%5C and http://www.garp.com/risknews/newsfeed.asp?Category=12&MyFile=2004-10-18-9562.html.