THE QUESTION OF HEGEMONY AND CAPITAL’S GLOBAL CRISIS

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Introduction
Marxists commonly see the current global economic crisis in terms of overaccumulation: crisis results from capital’s tendency to overproduce. Every capital speculates on future demand for its product through the anticipated advantages that its competitive strategies will provide. In other words, each capital produces at a level that assumes that it will push the opposition to the wall and rapidly take advantage of their competitive failures. But since all competitors are doing the same thing, overcapacity is the inevitable outcome. This is complemented by the other side of the competitive coin: downward pressure on wages, thus limiting the size of the market. Wage depression has been aggravated through the construction of a New International Division of Labor in which wage costs are reduced still further by off-shoring; the so-called ‘race to the bottom.’

1 For an example, see Roth (2009): “First, it is a crisis of a worldwide over-accumulation of capital in all its appearances and metamorphoses: productive industries are over-accumulated by an average of 25% (much more in the car industry), the global transport chains by 30-35%, and the banking and financial sector by at least 50%. Secondly, this over-accumulation goes hand in hand with a massive global under-consumption, due to capital’s huge reduction of mass incomes in the centres in the course of the last cycle, its above average growth rates on the basis of the lowest wages in the emerging markets and its policy of leaving mass poverty in the South (slum cities, shadow economy) in a state of imminent genocide by hunger... Thirdly, a finance policy of cheap money and cheap credit nonetheless compensated for the interplay of over-capacity and under-consumption in the developed centres of the world, but this could adhere to Simon Clarke’s (1990) view of overaccumulation crises.

I do not want to take issue with this explanation. It exists, however, at a very high level of abstraction. After all, it is not as if capitalist production has been vigorously expanding. On the contrary, it experienced a sharp brake in the early ’seventies and has yet to achieve again the levels of performance experienced during the so-called ’golden years’ of the ’fifties and ’sixties. What therefore is the more concrete configuration of forces that has given expression to this more abstract tendency to overaccumulation at the present time? One line of thought is that it has to do with the fading global hegemony of the US. How it might be connected has yet to receive careful scrutiny.

The Political Economy of Hegemonic Decline
I am not the first person to suggest such a connection. I want to note two contributions in particular. The first is from David Harvey (2009). Drawing on Arrighi (1994), he has suggested a connection between global economic crisis and changing patterns of hegemony. Preceding the twilight of an erstwhile hegemonic power is a period of financialization of the global economy, only delay the outbreak of crisis by a few years. As the low-pay sector expanded and the precarisation of employment conditions increasingly reached the middle classes, several million people worldwide indebted themselves to the tune of at least $12 trillion (mortgage debt without own means, credit card debt, hire purchase and leasing debt, student loans etc).”
though Harvey notes that Arrighi does not provide any explanation for this association.

More helpful in this regard is a paper by Alan Freeman (1988) written in the wake of the stock market bust of 1987, though this does not emphasize financialization to the same degree as Arrighi and Harvey. Freeman focuses on the parallels between the earlier decline of British hegemony, and the more recent American decline, which he sees as partly responsible for the 1987 crash. Hegemony, Freeman argues, depends on a combination of two conditions: leadership in the development of the productive forces, as indicated by productivity advantages over the firms of other countries; and maintaining access to world markets for the other imperialist powers. In the case of Britain, by the 1920s its technological monopolies were history, and the US was by then the most obvious flag bearer. But the shift to US hegemony was frustrated by the way Britain retreated into the markets of its empire, excluding other countries from access. In this regard, he claims, the depression of the 1930s – much worse for the US than for Britain – was no coincidence. This determined future US policy: break up the European empires. This it proceeded to do after the advantages that it reaped, not all of them intentionally, as a result of its participation in World War II. Now, Freeman argued (p.40): “The US has ... moved to exactly the same position that Britain occupied in 1918. It no longer guarantees the general conditions for imperialist accumulation but on the contrary destabilizes them. It uses its accumulated financial and military might to rob its rivals of the plunder of ‘honest trade.’” It is not clear how the US has limited the opportunities of the other imperialist powers through impeding access to markets in the way that Great Britain did in the '20s and '30s. On the contrary the US has become the market. Nevertheless, one can argue that fading hegemony has resulted in practices that are similarly defensive, working to the disadvantage of the other major imperialist powers. Peter Gowan’s (1999) claims about what he calls the Dollar-Wall Street regime are especially helpful.

The Dollar-Wall Street Regime
In *The Global Gamble* (1999) Gowan develops an argument about the growth of speculative activities on the part of US financial corporations. He places this in the context of challenges to US hegemony, particularly with the rise of Germany, Japan, France and latterly, China. Gowan argues that the financial turn embedded in US policy was a response to the increasing competitive challenge of Germany and Japan in industrial goods. One can add that the United Kingdom’s willing connivance in this, with the City of London as a junior partner, was born of similar forces. Gowan does not say that the growth of speculative activity of financial capitals instead of productive investment has been the determinant condition for the sluggish growth of world markets. But that is what I am suggesting. Far from the current crisis being one of overproduction, it has been rather the obstacles placed in the expansion of global production by the growth of speculative financial activity that has been at the heart of the problem (see also Patnaik 1999). This is not quite the same as denying the other imperial powers of the plunder of ‘honest trade.’ But it certainly limited the growth of the world market. In effect the US preferred a situation where it could achieve a growth rate of 2% a year and the rest of the other imperialist powers 1%; to one where France, Germany etc., would achieve a growth rate of 4% and the US 3%.

The seeds of these changes were sown in the early '70s with the dissolution of the Bretton Woods agreements, essentially as a result of
American initiatives. We can trace several steps here, each providing a foundation stone for what Gowan calls the Dollar-Wall Street regime, in contrast to that of Bretton Woods. First came a severing of the link between the dollar and gold. The Bretton Woods regime had been a modified gold standard under American leadership. International exchange rates remained constant, with the exception of what were in effect negotiated revaluations, typically downwards. Currency values were then underpinned by the American commitment to convert dollars into gold at the rate of $35 an ounce. By the early ’70s, though, the more competitive prowess of France, Germany and Japan had placed the dollar under pressure. At $35 an ounce, the dollar seemed to be overvalued. In consequence France had begun to present its dollars for gold at the given rate. To avoid devaluation and the erosion of American gold reserves, the commitment to ready conversion was withdrawn. Henceforth, the dollar would be the world’s major reserve currency, without the discipline of gold, giving the US government tremendous power to determine exchange rates through its control of the printing presses.

Second was the ending of so-called ‘financial repression.’ Hitherto, private financial operators, in dealing with counterparts overseas, or with foreign governments, had been under the strict control of central banks. Foreign currency was available for purposes of trade or direct foreign investment, but not for the purchase of foreign securities, either of financial institutions or of governments. Henceforth, the lifting of capital controls allowed the purchase and sale of securities denominated in foreign currencies. In addition to lubricating trade and direct foreign investment, it would be possible for banks to speculate.

Third was making international exchange rates subject to market forces. Under Bretton Woods exchange rates had been constant for long periods of time, punctuated only by the occasional devaluation, typically in response to a particular country’s balance of payments problems. Now they would be determined by the supply of, and the demand for, different currencies, exposing countries to the possibility of rapid changes in exchange rates and therefore in respective balances of payments. Falling currency values would make imports more expensive, driving the balance of payments into negative territory. Exports would become cheaper and expand but, as we will see, only after a significant delay. The deteriorating balance of payments would then provoke speculation in the future value of the currency inducing the flight of short term capital in search of the security of more stable currencies; of which, it would turn out, the dollar would be primum, and, in virtue of its status as the international reserve currency, far from inter pares. These changes opened huge opportunities for US financial capital, but at the expense of global accumulation.

Harvey (1982: Chapter 9) argues that the problem for any state whose money functions as the international reserve currency is to steer a course between the competing demands of its own national capitalism on the one hand and global capitalism on the other. And so it was to be for the US. As Parboni (1981) pointed out, it all started rather auspiciously. During the ’fifties, and for most of the ’sixties, the US always maintained a current account surplus in virtue of its huge productivity advantages, advantages which had yet to be significantly offset by higher wage costs. Its surplus could, however, have been bigger. This is because the US allowed the other major industrial countries to devalue their own currencies relative to the dollar – and so encroach on American export markets – and

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2 The exception to this was the City of London which had allowed private financial institutions to trade in international currencies and securities since 1950. As Gowan notes, this had been pushed through by Harold Wilson when he was President of the Board of Trade in the Attlee government. It was, says Gowan, tongue-in-cheek, ‘undoubtedly Wilson’s major contribution to the history of the world ...’

3 More accurately, signatories to the agreements had to keep respective currency values within a band of +/- 2.25% relative to the dollar.
also to maintain some discrimination against US exports. The US also used its trade surplus to build up the dollar reserves of other countries, so as to facilitate their trade. It did this through aid programs and the creation of military bases. As Parboni (1981) went on to claim, “In other words, the United States provided the rest of the world with the ‘collective blessing’ of economic stability while extracting no direct advantages for its own economy …” (p.50). But since the early 1970s, this is no longer the case and the US “instead unhesitatingly pursues its own national interest, and has thus become the principal source of perturbation of the international economy” (p.51).

Most importantly, the shift to floating exchange rates has been a potential, and sometimes an actual source of wild gyrations in currency values, engendering uncertainty, greatly complicating macro-economy policy, and encouraging the holding of much larger dollar reserves than would otherwise have been required. The problem is that any devaluation of the national currency threatens to become cumulative as a result of the way it impacts the balance of payments. The argument of the monetary school was that the balance of payments would adjust rapidly to changes in currency values: if a country’s currency declined in value, then imports, which had become more expensive, would decrease, while exports, which had become cheaper, would increase. This would close any potential payments imbalance. But in fact there are always lags. Domestic producers continue to import some of the inputs for products to be exported since it takes some time to locate domestic alternatives. Likewise, there is a delay in expanding export markets, in building up sales staffs and the like. Accordingly the foreign demand for the national currency would be sluggish, while domestic prices would take off. The result would be a further devaluation and a flight from the national currency into more secure ones. The elimination of financial repression made capital flight all the easier.

One of the ways of reducing the risks of a run on the currency as a result of initial pressures on it has been to accumulate large dollar reserves in central banks. This means that when the national currency is threatened, dollars can be used to purchase it on international money markets and so sustain its value, or at least facilitate an orderly and not runaway devaluation. The implication in turn is that export earnings that might otherwise be drawn on to fund capital investments of a productive sort and hence promote the economic development of the country in question, do not serve that function. They are, nevertheless, ‘productive’ in a certain sense. This is because the practice has been to purchase dollar denominated securities, more often than not through Wall Street banks. These have the advantage of being liquid and so easily withdrawn in case of a domestic currency crisis. It also serves to sustain the value of the dollar: a crucial consideration when export earnings are typically in that form.4

Private financial operators have been able to insert themselves in this way as a result of the lifting of the so-called ‘financial repression’ that had been entailed by Bretton Woods. The American banks, primarily in New York, and their London branches have become major conduits not just for central banks seeking to park their reserves where they can gain a royalty, but for all money capitalists seeking highly liquid assets in international markets.5 In this way, the US has found a new role in the international division of labor, along with

4 Compare Liu (2002): “The adverse effect of this type of globalization on the developing economies are obvious. It robs them of the meager fruits of their exports and keeps their domestic economies starved for capital, as all surplus dollars must be reinvested in US treasuries to prevent the collapse of their own domestic currencies.”

5 It is this trade, incidentally, which has made London and New York into ‘global’ or ‘world’ cities, and its recent and sudden deliquescence is a reason why they may not be world cities much longer World cities research has been an academic growth industry. One suspects that with the eclipse of financial services in the global economy, it is now about to be exposed as having a less than stable material basis.
its trans-Atlantic sidekick, to compensate for its fading command of the world of production. This returns to the dilemma Harvey posed regarding the conflict between more national capitalist interests and more global capitalist interests. What might have been to the benefit of American and British capital – and there are some doubts here that will have to be registered – has not necessarily been to the advantage of capitals elsewhere. Whether we conceptualize the issue in terms of Parboni’s “collective blessing of economic stability” or Freeman’s image of maintaining the conditions for “the plunder of ‘honest’ trade” Gowan’s Dollar-Wall Street regime has been highly problematic. There are several issues here.

The first are the implications for developing countries. The rise of private financial operators provided new sources of development finance. It has, however, been a poisoned chalice. The fluctuation of exchange rates has often been a serious challenge as short term assets in the hands of banks in the North have been dumped in favor of the dollar. This has precipitated the call in of loans in the country in question in order to pay back short term financing, and risked the bankruptcy of firms. At this point requests for private loans to bridge the balance of payments gap go unheeded and the IMF is called in with predictable consequences. Any outstanding debts get repaid but at the expense of the borrowing country’s taxpayers and the country’s development. Furthermore, devaluation makes companies vulnerable to foreign takeover. As a result it subordinates them not just to the neoliberal policy of some Northern government, rather than to that of a developmental state, but also to the possibility of plant closure. In short, new, possibly vibrant frontiers of capitalist development have been closed down. In turn this has limited the accumulation prospects of those Northern firms that would sell them all manner of capital equipment.

The second issue is how the Dollar-Wall Street regime has privileged financial capital over industrial capital. In the first place, this means a preference for the short term over the long term and gives an impetus to the speculative. Second, it imparts to macro-economic policy a deflationary bias. This is because inflation is a threat to returns on money capital. But this in turn has been a deterrent to productive investment. For a start, in response to concerns about the flight of hot money and the threat it poses to the value of the national currency, states have shown a bias to high rather than low interest rates. Third, the emphasis of growth policy is placed on exports rather than the domestic market. This is in order to earn the dollars that will bolster international currency reserves.

The only country which is exempt from this is the United States. This is because in virtue of being the guardian of the de facto world money, it is able to run an enormous balance of payments deficit. Meanwhile the East Asian countries have been holding wages down in order to boost exports. This has been a more general consequence as Albo (1994) pointed out. The spread of policies of keeping wage increases below productivity growth and pushing down domestic costs has led to an unstable vicious circle of what he calls ‘competitive austerity’: each country reduces domestic demand and adopts an export-oriented strategy of dumping its surplus production, for which there are fewer consumers in its national economy given the decrease in worker’s living standards (Albo 1994:147).

The success that American and British finance houses enjoyed as a result of the institution of the Dollar-Wall Street regime in turn led to an interest in its expansion into new markets: the subordination to it of countries that opted for

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6 As Trevor Evans remarked “The growth of sovereign lending after 1975 appeared to offer the possibility of appropriating surplus from the third world at a much higher rate than was possible from the working class in the advanced capitalist countries” (p.119).

7 See Gowan (1995) for how this played out in Eastern Europe.
an alternative development path. This was particularly clear in the events surrounding the East Asian crisis of 1997. The rapid growth of countries like South Korea and Thailand had been on the basis of a particular developmental model. Japanese in inspiration, it had relied on high ratios of corporate debt to equity. However, in order for it to work effectively, lending had to be confined to domestic banks working in tandem with the state and the national economy had to be insulated from international financial flows. This was because high debt ratios made borrowers very vulnerable to sudden withdrawal of short term loans on the part of Western banks. By the mid-90s this was changing. Under pressure from Western governments, the IMF, the OECD and Western banks, governments in East Asia had been moving to some degree of financial deregulation, allowing borrowing from international finance houses. Lured in by high rates of growth, they responded by lending to banks in Thailand, Malaysia and the like which then lent to industrial and property capitals. Emergent balance of payments problems subsequent to a deterioration in competitiveness on international markets then led to a rapid withdrawal of this external finance. Loans were called in from corporate borrowers, who subsequently had to move quickly to sell off assets, cut costs by laying off workers and generally plunging the countries in question into economic crisis. Cut off from the foreign loans that would have allowed a temporary solution to the balance of payments crisis, national governments then turned to the IMF. This meted out the full financial de-regulation medicine, including allowing the foreign ownership of banks. In consequence, the developmental growth model was undermined in the interests, in effect, of making East Asia safe for the Dollar-Wall Street regime. This, of course, has come back to haunt the US in particular. This

is because a response to the crisis in East Asia has been to build up massive dollar reserves and then to, in effect, intensify imbalances in the global economy by investing in US government paper.

Concluding Comments
In my interpretation of the current crisis I have emphasized the challenge to American hegemony and how the American response has been to defend it by policies that in effect have restricted both the growth of production and of the global market; the latter through the encouragement given to what Albo has called ‘competitive austerity.’ In thinking about this, though, it is also important not to lose sight of much longer term trends in capitalist development which laid down important conditions for the forces that are now playing themselves out.

Not least of these forces is the separation of financial from industrial capital. This has been going on for a very long time now. Industrial capital has become increasingly dependent on loan capital in its various forms: short term loans for the day to day running of the firm, but also loans that function as fictitious capital over long periods of time. In turn, the latter is a function of the increasing proportion of capital that is in fixed forms of long life: capital expenditures that might be difficult to finance out of accumulated surpluses and whose speculative character demands some sort of risk sharing anyway.

As financial capital has grown, it has become a new pole of accumulation, and as such it has been subjected to its own distinct logics of product competition and speculation. It has to be underlined that this was an inevitable result of the development of capital, again linked to its internal contradictions and, incidentally, a move in the direction of perfecting the law of value since, in effect, it levels the competitive playing field for industrial capitals. The significant point here though is that, crisis or not, this is a tendency, the increasing separation of financial capital from industrial capital, and its subordination to logics of accumulation and speculative activity, to the pursuit of value as a thing in itself, that has been an important precondition for the

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8 Gowan (1999) talks of ‘a systematic drive to make state after state subordinate its management of productive activity to the unregulated dominance of international finance and to make all states increasingly powerless to resist such dominance … ’ (p.28).
current crisis. Furthermore, this is a tendency for treating financial capital as a public utility that will remain. In this regard, current calls (Gowan 2009) make some sense.

References


