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CAPITAL, LABOUR AND THE NEW ECONOMY

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It was not too long ago that the theme of U.S. economic decline held sway as the prevailing discourse across the political spectrum in North America. The American defeat in Vietnam, the economic turmoil of the 1970s and the end of the postwar international monetary system of Bretton Woods built upon the strength of the American dollar, all seemed to indicate that the limits of American power had been reached. The theme evolved into conventional wisdom even through the ‘new dawn in America’ hyperbole of the Reagan presidency. Paul Kennedy’s The Rise and Fall of the Great Powers (1989) was, perhaps, the central text capturing the mood of the day. It located U.S. economic and military decline in a millennia historical process of global hegemonic power rise and fall. U.S. relative decline was foretold in massive public debt, mounting trade imbalances and stretched military commitments. Kennedy was hardly alone. Sam Bowles, David Gordon and Tom Weisskopf’s After the Wasteland (1990), Patrick Choate’s Agents of Influence (1991), Lester Thurow’s Head to Head (1992), Michael Perelman’s The Pathology of the U.S. Economy (1993), Giovanni Arrighi’s The Long Twentieth Century (1994), and, more recently, Robert Brenner’s Uneven Development and the Long Downturn (1998), all raised the spectre of American economic decline as witnessed in faltering per capita economic growth, low productivity advance, ‘impatient’ capital markets, movement from creditor to debtor status, and languishing competitive capacity taking the form of structural current account deficits. These texts varied widely in analysis and political sympathies. But the ‘rival capitalisms’ of Japan and Germany were inevitably proffered as the economic zones of ascendant production and organizational innovation – the post-Fordist highly-engineered, flexible technologies and networked conglomerates coming after American mass production and vertically-integrated corporations – that would become the new centres of world capitalism.

From Decline to the ‘New Economy’

The debates about how to address American economic weakness occupied a central place in the 1992 Presidency of Bill Clinton, notably in the cabinet figures of Robert Reich and Laura Tyson at the Labor Department and the Council of Economic Advisors respectively, both widely cited liberal contributors to the burgeoning decline literature in favour of economic intervention to restore American power. Neoliberal economic advocacy of free markets and trade, however, remained firmly ensconced in the Federal Reserve under Reagan appointee Alan Greenspan, and in the Treasury under the leadership of Wall Street czar Robert Rubin and Harvard economist Larry Summers. The former group argued for high

technology skills training and aggressive industrial and commercial policies for international competitiveness of American industry. The latter contended that fiscal rectitude, flexible labor markets and more open international financial and trade markets would best restore American fortunes. Clinton's key 1993 programmatic statement, A Vision of Change for America, tied the two themes together. Both groups of Clinton advisors were united, as Peter Gowan demonstrated, in re-establishing American economic supremacy at whatever the cost.¹ It was the neoliberal orientation, however, that came to rule the day, particularly after Clinton made peace with the Congressional Republican's Contract with America in the mid-90s budget battles and NAFTA came into effect.

The dire warnings of U.S. economic decline were eclipsed over the course of the Clinton presidency as a 'new economy' appeared to surge ahead. In the final years of the Clinton Administration, the U.S. economy grew at a real annual rate of over 4 per cent, and recorded unemployment slipped to about 4 per cent. International developments added to the perception of a resurgent U.S.: the Asian crisis of 1997-98 took the sheen off the Asian Tigers and reinforced the deep, sustained stagnation of the Japanese economy; and Germany and the entire EU zone suffered through the austerity imposed by the single market and currency projects of economic integration.

The economic expansion and financial exuberance that closed out the 20th century yielded soaring accolades for the U.S. 'new economy'. Few outstripped long-time Wall Street analyst Alan Sinai's giddy 1999 assessment: "The 90s have been the best decade for the U.S. economy going back to the 1850s. We took advantage of our unique free market system of incentives, which encourages entrepreneurship, and which puts us in the lead in high tech. Our society responded, and all kinds of good things happened."² The heady mix of economic recovery and record highs on the stock exchanges – with the Dow approaching 12000 and the Nasdaq at 5000 – did not limit the unchecked plaudits to the U.S. Even the usually circumspect British Financial Times ran a series of lengthy articles in December 1999 on the 'new economy' in the U.S. The Times contended that underlying seemingly outrageous market capitalization rates – the foremost example being internet stocks that had yet to turn a profit carrying stock market valuations greater than General Motors – was something "more durable and a critical element in understanding the remarkable performance of the U.S. economy at the end of this century." In the new U.S. economy, "a combination of flexible capital markets and an economic climate conducive to risk-taking have been at least as

important as [real] investments themselves.” Indeed, “financial markets should get a lot of credit for forcing money out of traditional management and entrenched corporations.”³ The financial capitalists and corporate consultants of Wall Street that in the 1980s were seen by the ‘declinists’ as America’s vice were now proclaimed by the neoliberals as the virtue of the ‘new economy’ in their relentlessly squeezing top management to provide shareholder value and economic efficiency while also supplying the credit to finance new venture capitalists.

There was no denying, in this view, that the American model had been re-established as the global pacesetter in the new capitalism of the 21st century. The export of the U.S. policy model to developing and transition economies through the neoliberal ‘Washington consensus’ became the standard for international economic support wherever the country, from Mexico to Mozambique to Russia, or whatever the issue, from capital flight to lack of industrial capacity to government debt, at hand. The American model was equally the unquestioned reference for liberal policy wonks in think-tanks on both sides of the Atlantic, with Demos in London and Brookings in Washington leading the charge. Paying homage to the Clinton regime became something of a ritual for European social democracy in ‘Third Way’ policy seminars in London, Berlin, Amsterdam and, most notably, in the Florence Summit hosted by Italian Prime Minister and former communist Massimo D’Alema and where Clinton himself held court. Even the socialist intellectual journal New Left Review (who were not the only socialists to adopt the ‘new economy’ position that the U.S. was once again without rival economically and politically) featured an article on the U.S. economy with the astounding conclusion that “the United States has pursued a pro-equality, low-interest rate policy since 1995... A truly European welfare state... [should be] modeled on the comparatively successful social democracy of the United States. That’s the ticket. Do it the American way.”⁴

The contrasting theses of decline or ascendancy of the American state and ‘new economy’ over the last decades also have counterposed assessments of the trajectory of the world economy. While the thesis of American decline posits mounting economic rivalry and political antagonisms between contesting centres of world capitalism, the thesis of re-established American ascendancy sees the unevenness of economic interdependence providing an unchallenged capacity for unilateralism and thus a new U.S. imperial order or super-imperialism. Similarly, the neoliberal modalities of governance that are central to the American model are assessed in the rivalry position as irrational and dysfunctional policies

that will have to give way, sooner or later, to more advanced organized models of capitalism; while the view of uneven interdependence sees neoliberalism as a central mechanism for exporting the U.S. model and improving the conditions for extracting surplus value both nationally and internationally in launching a new phase of economic expansion without raising any deeper contradictions. Even the U.S. led 'war on terrorism', whatever the view of its injustices, is interpreted in stark contrasts: as the actions of a declining power resorting to military force to coerce directly a world it can no longer dominate economically or diplomatically; or that of an unrivalled power further consolidating its imperial hold across the globe through military mechanisms. In other words, the economic and military events that have beset the U.S. and the world economy over the last year – the terrorist atrocities in New York of September 11, the recession and stagnant growth from the spring of 2001, and mounting corporate corruption scandals – are posed, in either view, as a transitional phase of correction to financial and trade imbalances and the extension of geo-military power on the path to radically different interpretations of the future world order. Hence a divergence on the immediate tasks confronting the Left and the labour movement: the development of multinational and multilateral initiatives to establish new governance structures outside and above U.S. power to allow a new 'cosmopolitan democracy' to form on the back of an egalitarian international civil society; or confronting U.S. power and its agenda of neoliberal globalization through political projects and renewed agencies of social class in unions and parties that re-assert national sovereignty.

This analytical juxtaposition of rivalry and interdependence, however, too often confuses the effects of persistent underlying contradictions of the world capitalist economy, and the U.S. role within it, with their transformation. Indeed, economic internationalization during this phase of 'globalization' has been marked by consistent sources of economic rivalry and longstanding tensions among the leading capitalist powers (and despite their suppression and marginalization, a resiliency of resistance from many sectors in peripheral states), alongside growing economic interpenetration of capitalist firms and political cooperation and interdependence between capitalist states. The U.S. and neoliberalism have been at the centre of both these processes. The opposed interpretations of the trajectory of U.S. power and the current economic conjuncture need to be assessed against longer-term developments in the world economy and the specific contradictions that have formed with the slowdown in accumulation in the U.S. and the world since 2000. Discussions of the 'new imperialism' and the 'new economy' need to be located here: between the rivalry of

competing zones of capitalist production and financial activity and the interdependence between these zones created by the internationalization of capital and the geo-military empire of the U.S.

The World Market

Capitalist economies are defined by a continual process of transformation of commodities and social relations in time and space in the pursuit of surplus value in the form of profits. The appropriation and production of value and commodities through the exploitation of labour takes place in spatially specific places of production; but the circulation of commodities and the distribution of value in exchange flows is potentially not bounded to any particular place. These two simple propositions have important conceptual implications. They imply that capitalism is inherently expansionary in a double-sense: competitive rivalries continuously compel the increase in the productivity of labour by adding capital goods and reorganizing work, and there is a constant need to seek out new markets and new sectors for the production and realisation of new value added. And they suggest that particular places of production are always implicated in a wider set of social relations and exchange flows that form a 'hierarchy of space' in a more encompassing market.

This extended reproduction or internal transformation of capitalism is not, as we are often told, simply the consequence of the harmonious interaction of autonomous individuals and firms acting upon an inherent human nature of self-interest as market opportunities emerge. Rather, the patterns of reproduction of social relations are always specific, conflictual and transitory. The reproduction of capital must attain a certain 'coherence' and 'materialization' in time and space if capital is to valorize itself and accumulate. But the space of capital is continuously altering across time by shifting production processes, 'condensing' distances from new transportation and communication methods and restlessly seeking out new markets. There is a continual process of valorization and devalorization of the fixed capital complexes and social relations in different social spaces as productive capacities and competitive position evolve. David Harvey calls this contradictory process a 'socio-spatial fix',⁵ highlighting a tension between the fixity necessary for production and the fluidity of circulation of commodities and money-capital in capitalist social relations. Transformations within and between places of production will always also be sources of emergent interdependencies and tensions, and even potential chaos, in the world market.

In the preceding sense, space can be defined as the material form of existence of the socio-economic practices of the social agents that structure and transform capital accumulation. The social practices of capitalism have historically been compartmentalized within the territorial domain of nation-states which have provided a common currency, legal structure, class formation and social institutions, and which interact as part of a world market. It is possible, therefore, to refer to ‘national models of development’, defined as the patterns of production, consumption and distribution and place within the international division of labour of the world market. The export of capital and international trade are the logical extension of the expanded reproduction of capital that occurs within states.

If places of production are always historically specific class relations conditioning the formation of value within nation-states, then the economic flows of the world market such as commodity trade, portfolio investment and direct investment connect these places as part of a system of interacting national social formations. National and local development is combined within an evolving international division of labour: the local and particular of value production is connected with the abstract and the universal flows of money in the world market. In this conception, there is no automatic complementarity between national economies; nor is there any naturalistic process for the equalisation of the levels of development or rates of accumulation in different parts of the world. The world market reproduces a hierarchy of national economies in a process of ‘uneven and combined development’, which can be described as a chain of imperialism extending from the centres of the world economy to its peripheral zones. The economic centres of the world have thus also established and controlled the world market’s governance structures – the international trading, monetary and credit systems, and the security regime – to their advantage in different phases of world order. Transformations within the centres of the world economy, therefore, must also be analyzed as part of the social processes forming the world market. Unevenness, rivalry and interdependence in the world market are the conditions of existence of capital, or historical capitalism.

A Darkening Outlook?: The U.S. and the World Economy

These conceptual questions have been raised by the debates about the changing place of the U.S. in the world economy, and this now needs to be addressed more concretely. It is necessary to recall that the advanced capitalist countries are still in the midst of a long phase

of slower accumulation relative to the postwar boom. Growth rates in the advanced capitalist countries have fallen from about 4 per cent over the period 1950 to 1973 to less than half from 1973 to 1989; they have stagnated further since, with the partial exception of the U.S. in the second half of the 1990s (essentially from the trough of the business cycle to the peak of an extended expansion); and all three major zones of the world are now embedded in a cycle of stagnant growth and teetering on severe recession. The U.S. has been at the heart of the world economy over both these phases of upswing and downturn in terms of the production of value by its capacity to put in motion leading means of production in terms of mass and capability, and by the flexibility of its labour markets allowing extraction of longer hours of work than its economic rivals. Yet both the phases of upswing and downturn have been periods of economic 'catchup' for Europe and Japan with the U.S. in terms of average productivity levels and per capita incomes (although income closure has been more uneven due to increased hours of work in the U.S. and falling hours elsewhere; the various human development indexes that are less reliant on incomes show an even clearer process of sustained catch-up).⁶ Whereas the U.S. had productive capacity and technological capabilities coming out of postwar reconstruction that was unrivalled, today all three major zones of capitalist production lead in some sectors in terms of technology, productivity and market shares. This long-term development is indicated in many ways: market capitalization, total sales revenues, export shares, peripheral regions of sub-contracting networks, and emerging rival currency and trade zones. The competitive context and the configuration of the world market today is vastly different from the American unilateralism that defined the postwar Breton Woods system.

The developments in productive capacity in the key zones of advanced capitalism have also been registered in shifts in the circulation of commodities and money in the world market. In the postwar period, the US supplied liquidity to the world trading system first through capital exports to finance trade imbalances of the reconstructing economies of Europe and North-East Asia and then by printing dollars and borrowing as its own trade balance moved from surplus to deficit in the 1970s. The processes of catch-up, intensification of international competition, and resulting dollar overhang meant that the American dollar eventually became unsustainable as a singular hub currency and thus the Bretton Woods system ended. The world market moved into a quite distinct era: a pure credit money system (after the gold exchange system), floating exchange rates (after fixed rates), a range of currencies held alongside gold in central banks to clear trade balances (after the dollar alone),

liberalisation of capital movements (after limited controls), and negotiation of adjustment of major currencies between the three emerging economic zones (after a phase of unilateral action). The economic impasse of the 1970s set in motion an additional set of concerns: many developing countries ran into trade problems, and credit issued to cover foreign exchange shortfalls soon became an equally large problem of meeting debt obligations and managing capital outflows; slower growth rates and higher interest rates strengthened financial interests and made it systematically more difficult for governments to maintain fiscal balances; and the American current account deficit, alongside the Asian and European surpluses, proved to be chronic and to represent a structural shift in relative trade and competitive capacities between the three blocs. Printing money or issuing either government or corporate bonds (pre-validated money or fictitious capital, both with potential destabilizing consequences as money as the general equivalent for exchange and credit issuances began to vastly outstrip advances in the production of world value) to keep trade imbalances liquid became a critical aspect of the flows of the world market: initially to recycle petro-dollars; subsequently to prop up Third World payments deficits; and then to cover the massive current account deficit of the U.S. and the mounting private and government sector debt. The increasing rivalry for world market shares for commodities and attracting money-capital, in a context of slower growth, was paralleled by the interdependence of the different zones seeking outlets for commodities in each in each other's markets and the internationalization of credit flows and claims.

By the mid-1980s, then, exchange rate adjustments and capital flows had proven to be both necessities and sources of tension, uncertainty and instability as a consequence of structural trade asymmetries and relative shifts in underlying capacities of the three zones to produce value (this contradiction in turn spurring the explosion in secondary financial markets to hedge risks as future currency and trade alignment is always in doubt by one or another party to transactions). The IMF and the World Bank promoted financial and capital account liberalisation as the mechanism to finance trade adjustments and to have foreign exchange markets impose market disciplines on national economies. The floating rate system arose out of economic asymmetries in the world market and weakness in the dollar during the 1970s. But in the 1980s, as the American trade deficit soared to new heights, the dollar appreciated by some 40 per cent as capital poured in. The Plaza and Louvre accords attempted to manage the resulting tensions and to bring the dollar down in value against the yen and European currencies. But the subsequent spectacular dollar depreciation left American trade problems

no closer to being resolved; and the appreciation of the Yen and European currencies set the conditions for the Japanese asset bubble and deflation and European stagnation. The realignment and tensions could not be contained within just the anchor economies. The bond market swings of 1993-94 and the currency troubles of Spain, Italy, Portugal, Mexico and a host of Third World states felt the spillover directly on their economies, and often standard of living.

The devaluations of the early 1990s and the slowdown that ensued began a new phase of rivalry by the mid-90s, as the dollar hit record lows against the deutschemark and the yen in 1994. The Japanese began attempting competitive devaluations to revive the economy in the face of an asset meltdown; and to offset the EU stability pact in preparation for the single currency, the EU, too, sought room for manoeuvre through currency realignment and European capital sought foreign assets to diversify risk. From 1995 to 2000 the dollar increased by about 40 per cent on a trade-weighted basis, although this did not sustain high growth in either Europe or Japan. Moreover, the inflow of capital and economic stimulus internal to the U.S. set off a growth spurt from 1995-2000, with U.S. growth averaging about 4 per cent (much of this was extensive growth in the size of the work force and hours worked, but productivity also moved above trend in this phase), well above the average of 2.6 per cent from 1975-1995. The 'new economy' euphoria peaked in 2000 with growth at about 5 per cent and stock markets at astronomical record highs across the board.

But there remained structural imbalances in the U.S. and the world market. Despite increased in productivity, capital spending was not exceptional in levels or duration over the upswing, and any increases in productive capacities were not being registered in the trade accounts which continued to move to record deficits making the position of the dollar vulnerable, especially with high consumption and corporate mergers being ultimately financed by external debt. Hence the fragility of the virtuous circle of asset inflation, capital spending, productivity increase, and stronger dollar without improved trade performance and supportive growth in Europe or Japan, and the possibility of a vicious circle of unknown magnitude being unleashed at any time. Even as Federal Reserve Chairman Alan Greenspan warned of the 'irrational exuberance' of the equity markets and celebrated the 'new economy', the American response to every economic shock fed the structural imbalances. Each market crisis – the collapse of the international hedge fund Long Term Capital Management, the Asian and Russian crises of 1997-8, the collapse of internet stocks – was

met with additional injections of liquidity to prevent further implosion of interdependent credit markets. This sustained the impacted economies and growth in the U.S., but at the ever-steepening cost of irrational asset levels, soaring debt loads and an increasingly unsustainable current account balance. With growth turning flat in the U.S. since 2001, the reversal of these processes is, indeed, underway. The impact on the world market is as intertwined and confused as it ever has been.

There are, then, several tensions continuing to figure in the relations of rivalry and interdependence in the world market.

(1) Long run growth trends, with the partial exception of the U.S. for the late 1990s, indicate that the slow pace of world accumulation is likely to continue. For the first time since the early 1980s, the advanced capitalist countries, and a good part of the rest of the world, have entered a synchronized recession. Germany has been growing at less than 1 per cent since 2001, and the high growth in Europe as a whole in 2000 was largely spurred by the sharp drop in the Euro aiding exports that is now disappearing. Japan's economy remains sickly, with its growth still below 1.5 per cent, and likely to fall again with any strengthening of the yen (although there are signals that East Asia is developing an internal dynamic of growth and trade that is deepening the internal coherence of the region as an economic bloc). The U.S. is not yet out of the recession that began to bite in 2001. There is, consequently, again a run-up in unemployment and contingent work on top of already high levels of labour reserves. However, the most visible symptom so far has been corporate restructuring. The telecoms bankruptcies in the centre economies has been well over \$100 billion (U.S.); and the U.S. alone has recorded over \$210 billion in losses from its 25 largest bankruptcies across all sectors. This weakness is quite extraordinary in its breadth: the disaster unfolding in the Southern cone countries of Latin America is notable, of course, but Japan, Germany and the U.S. are also recording historical levels. The bloating of balance sheets through the 1990s, especially in the U.S., has had consequences for accumulation. Corporate earnings are quite clearly more unfavourable, and increasing general exposure to bad debt and risk. Loan capital will remain tight, and reducing interest rates to stimulate economic activity will not necessarily bring down yields. Similarly, IPOs (initial public offerings) in the U.S. are only expected to come in at \$31 billion for 2002, the worst year since 1991 (new issuances are as low). The interdependence of the world market is reinforcing the slowdown between its

different zones and, in turn, adding to the competitive rivalry for outlets in slower growing markets.

(2) Commodity trade and the structural asymmetries in current account balances is becoming the central symbol of the impasse in the world market. The U.S. net debtor position from its cumulative current account deficits since the 1970s is estimated at some \$3 trillion as of 2002; its deficit for 2003 is estimated to come in at between \$450-500 billion, approaching the 5 per cent of GDP that has triggered payments crises in other countries. This is mirrored by a build-up of surpluses in the other two key zones, and in particular in East Asia. Even after falling some 20 per cent against the Euro since 2000, the U.S. dollar is probably still overvalued by close to a similar level to improve the competitiveness of its industry (although not necessarily to clear the current account as a low dollar did not do so in the past). The imbalances raise two major tensions. First, the U.S. must import in the order of \$2.7 billion a day in capital to cover the deficit. The rest of the world creditors must accept the issuance of dollars to cover the debt (which is dollar-denominated) in the hope to eventually purchase, in turn, U.S. goods or assets with the accumulated dollars (in the hope the dollars can still purchase equivalent value, an increasingly unlikely prospect). It is not so clear, however, creditors will continue to sustain this process to the same degree. Indeed, there are already signs with the dollar slide of less capital moving into the U.S. and diversification out of U.S. dollars. The U.S. dollar is unlikely, in these circumstances, to maintain the same relative position as international means of payment and thus capacity to earn seigniorage (the capacity to appropriate value without producing value). The economic processes differentiating the three key advanced zones will continue, therefore, to differentiate into regional hub currencies as well. Second, the political pressures of trade are moving in two directions at the same time as a result of the imbalances: on the one side, the Doha round, numerous bilateral trade agreements, the FTAA and the U.S. fast track trade authority are deepening free trade; on the other, trade protections are systematically surfacing, especially out of the U.S, in steel, agricultural goods, lumber, autos and other sectors. Continued trade liberalization can contain these tensions by deepening the interdependencies of the world market but only by realigning the existing rivalries and imbalances that promoted free trade in the first place. The path of adjustment remains clouded given the hierarchy of the world market.

(3) The economic slowdown and neoliberalism created a significant financialization of the economy from the 1970s on. Money-capital now takes many forms relatively disembedded from the real economy: foreign direct investment in the form of acquisitions rather than new plant; vast credit markets; interconnected equities markets; massive turnover in currency markets far outstripping facilitation of commodity trade; and secondary markets spreading risks. These developments have, at the same time, tightened the interdependencies of the world market as money and speculative capital moves more freely between different zones of the world, and sharpened rivalries as different production zones compete for financial flows and face competitive disciplines that carry the potential to amplify economic disturbances into major shocks. The slow economic growth has meant that returns to the financial sector have been higher and thus have drawn capital into the sector and made financial capital (rather than governments even in a minor sense) the central allocator of credit. In the countries of the centre, these processes have meant a transfer of income flows to financial asset holders over the course of neoliberalism. In the current period in the U.S., the rise in household and corporate debt to historically high levels and the return of the U.S. government to fiscal deficit raise this transfer of surplus again, with the added aspect of its international dimensions. The contradictions are even more sharp for peripheral countries in the world market, particularly the emerging markets that have been blessed by financial capital inflows. Brazil and Latin America are good examples. Brazil maintains exchange reserves of only \$24 billion, owes \$250 billion in accumulated debt (denominated largely in dollars), and maintains spreads on Brazilian bonds of 23 per cent above U.S. treasuries (parallel to Argentinian levels before its further collapse in December 2001). This requires enormous efforts on Brazil's part to get the exports to service this debt, and threatens the collapse of the real from the flight of 'hot money' with any signs of economic disorder. Latin America as a whole is in a similar situation, and it has proven quite difficult to contain the spread of 'contagion' from Argentina. The UN Economic Commission on Latin America and the Caribbean (ECLAC) in recent studies concludes that the region has gone through yet another 'lost decade' as capital outflows from debt, interest and dividends have exceeded capital inflows (which have fewer privatizations to take up) in the order of \$7 billion a year (about 0.4 per cent of regional GDP) in the last number of years. This can only worsen as regional GDP is expected to decline with the world slowdown, and the problems of penetrating the U.S. with exports mount as the dollar declines in value. The global financial system is profoundly linked to the dilemmas and uneven interdependencies of the world market today.

(4) The deflation of the asset bubble adds another tension between the U.S. and other zones complicating any path of adjustment in the world market. An estimated \$7 trillion and 1000 companies have been lost in market valuations in the U.S. alone from 2000 to mid-2002, based on the Wiltshire 5000 index tracking of all publicly traded companies (\$11 trillion world-wide).⁷ This is about half the entire market valuation; narrower market indexes are down by similar amounts, with the Nasdaq tech-heavy index down by close to 80 per cent. Although there has been some recovery in stock indexes into 2003, there is still plenty of room for further declines as price:earnings ratios used to assess market capitalization values remain well above long-run averages (one would normally expect after a boom, a longer period of undervaluations). It is difficult to find any theoretical or empirical bases for not concluding that deflation of an asset bubble and the consequent 'bear market' will not impact the real economy (in other words, that a 'paper boom' followed by a 'paper bust' would not have an impact on the 'real economy' in either directions has little merit, and depends upon a conceptualization of capitalism as a non-monetary economy). There are several reasons to suggest that the unwinding of the asset bubble will take some time and add to sluggish accumulation and deflationary tendencies. First, the financial claims made on the bubble's way up are typically based on projections of continued asset growth that are hard to meet on the way down. As has been unfolding, bankruptcies ensue as the destructions of capital values is required to restore the profitable basis for accumulation. Capital spending is likely to be sluggish until this process is complete (unless the bubble can be reflatd somehow, which simply pushes today's problems into tomorrow). Second, the shift that occurred through the 1990s as pensions moved from defined-benefit to self-directed and defined-contribution plans so as to plough funds into equities has seriously hurt funding projections. Both firms and individuals will have to increase savings to meet future pensions needs. Third, debt loads of households will also have to be addressed, whatever the precise impact of the 'wealth effect', to at least restore balances to traditional savings levels. In the U.S., redemptions of mutual funds and other asset classes bearing risk are now outstripping new inflows by billions each month to pay down debt or to sit in 'cash hoards'.

(5) The interactions between trade imbalances, financialization and slowdown were solved 'positively' in the late-90s as the U.S. 'new economy' played the role of 'importer of last

resort' to move world accumulation ahead. The unwinding of the U.S. asset bubble now threatens to impact 'negatively' world demand in the current configuration of the world market. The EU stability pact has meant that the EU has relied disproportionately on external demand to sustain its sluggish growth. Japan has been in a similar position as its deflating asset bubble has made for profound stagnation; it has depended upon exports and the low yen to avoid even further collapse. Outside the zones of the centres of the world market, economic stagnation has been even more severe (apart from the export surplus zone of East Asia). The key sustaining force has been the U.S., and with capital spending never fully recovering through the 1990s, American consumption growing faster than incomes has been critical. U.S. consumption continues to be resilient, albeit slowing (although it should be recalled that Japanese consumption also held up in the first years of its asset deflation, but then Japan never had the madness of a Federal Reserve Chairman telling people to borrow more against their rising housing values). A correction in personal expenditures in the U.S. seems unavoidable: net worth is down; net debt is up; national savings is down; and unemployment is up. Moreover, the Federal Reserve's cutting interest rates eleven times in 2001 to 40 year lows has had no clear impact on stimulating capital spending (although it probably explains some of the resiliency of consumption and housing). Currency realignment from the dollar decline makes sources of world demand even more unclear. The outlook, therefore, looks awfully gloomy: European, and in particular German, weakness; Japanese deflation; and U.S. recession.

(6) It appears that rather than being a 'new economy' phase of fundamental transformation of corporate earnings, productivity and accumulation, the late 1990s in the U.S. may well have been a traditional recovery along the path of restructuring already laid out by neoliberalism, albeit one with considerable speculative excesses that will now have to be worked through. This phase reinforced the uneven interdependence of the world market on the U.S. economy and American power, as the rest of the world has expected the U.S. to be the 'locomotive' of world accumulation. But this period may now be exhausted as adjustments, at some level, seems unavoidable between the three major zones of capitalism (and with the peripheral zones of the world market increasingly compelled to line up behind one or another). Adjustment will raise tensions of rivalry between the zones borne out of conditions of economic weakness. The U.S. zone (including Canada and Mexico) has a deflating asset base, huge

capital needs and competitiveness problems at current exchange rates; the EU zone has relatively poor productivity performance, large labour reserves, stagnant internal demand and external competitiveness only with a Euro weaker than it likely will be; and Japan has deflationary problems, weak internal demand and current account surpluses that will be damaged by currency appreciation and thus little room to manoeuvre (although there is important strengths in other parts of East Asia that may yet signal a different trajectory for the wider zone if the dependence upon export surpluses with the U.S. can be lessened, and internal trade linkages deepened.) In the uneven interdependencies that have been created in the world market, it is not clear where the future path of adjustment leads. It is possible, of course, that the U.S. again reflate and provides the external demand for the rest of the world, but in the process generating even greater imbalances in personal and corporate debt and international payments. But it is even less clear now how future necessary adjustments could be made without generating even more chaos in the world market. Or the processes of adjustment of the U.S. dollar and internal balances that have begun continue with the rest of the world adjusting accordingly. This depends particularly on enormous changes in the interdependencies that have formed in the EU and East Asia on the U.S., and to a large degree these zones establishing a much more independent base. With the Japanese problems and much of Asia still underdeveloped, this option falls especially on Europe. It is not at all clear that the EU is politically capable of undertaking such a project. Finally, the recessionary spiral may continue for some time with correction of U.S. imbalances spilling over into the rest of the world market with brutal results. Where such a process of adjustment would end up is not clear; however, it is unlikely that the hierarchy of the world market would look the same as it does now. The attempt at a co-ordinated response to the economic slump through existing international institutions may well entail, reflecting the interdependence of the world market on the U.S. within a context likely to deepen rivalries, a confusing mixture of all three scenarios.

'The New Economy', Neoliberalism and American Power

The tensions and contradictions that have emerged with the U.S. 'new economy' illustrate the complexity of both rivalry and interdependence between the hierarchy of states within the world market. It is wrong to see the world market as only a chaotic complex of rival units on the verge of breaking down into warfare or overtly antagonistic blocs. At this

political moment, the interdependence of interests of national ruling classes (even those in peripheral zones) in the existing international system far outweighs their rivalry. But it is equally wrong to speak only of the uneven interdependence produced by U.S. hegemony. This can return us to a conceptual abstraction of 'empire' that, on the one hand, gives a one-sided emphasis on the politico-military dimensions of territorial expansion reminiscent of pre-capitalist and colonial societies, and, on the other, elides the particular concentrations of power and authority in concrete places mediating the relations with other places. Japan, Germany, Canada, and even Brazil, Mexico and South Africa all constitute, in the particular modalities of their relations with others, dominant states in the hierarchy of the world market. And the contradictions of the economic relations of the U.S. to the world economy means that both alternate agendas and efforts at greater co-ordination from rival imperial centres are likely to increase in the near future.

It is in this particular world economic configuration that we need to locate neoliberalism, and not reduce it to a wayward strategy of American imperialism. Many dissenters to neoliberalism have done exactly that. In the wake of September 11 and subsequent economic events, for instance, Tories such as the journalist Dalton Camp and the British philosopher John Gray concluded that the era of free markets and globalization was over and that a more ordered society was now on the agenda. Liberals like the journalist Michael Ignatieff and social democratic theorists such as Anthony Giddens and Ulrich Beck drew similar conclusions to argue for government policies of better corporate governance and safeguards against the risks created by globalization. But neoliberalism is lodged in deeper structural processes of the world economy. The processes of rivalry in the world economy in conditions of weak economic growth and unused capacity compel each zone of the world to engage in a continual process of innovating and cost-cutting. Similarly, the liberalization of capital flows has deepened the dependence of the expanded reproduction of capital on international flows. The interdependence and internationalization of capital has solidified in each state a ruling bloc with a compelling interest in furthering market openness. Neoliberalism as a social form of power and class relations is deeply embedded in the social reproduction of national capitalisms and thus in the hierarchy of world market. The predictions of the end of neoliberalism over the last year have thus come to nought. The pressing question is how neoliberalism will evolve if the contradictions at the centre of the world economy sharpen over the course of the current slowdown.

It is, indeed, at this point that prognosis becomes clouded in uncertainty. It is difficult to identify by what processes the necessary adjustments between the U.S. and the other blocs can occur, and could do so without deepening tensions of rivalry between them and attendant dangers of trade wars that all have been wanting to avoid. Interdependence between the imperial centres has not yet provided the co-ordination between them, two decades of analysis of a transnationalization of class and governance notwithstanding, necessary to overcome the 'competitive austerity' dynamic of neoliberalism other than providing relief from its effects. This has had the important consequence, however, of increasing what the neoliberals call 'moral hazard' and the centre-left 'risk society', but really is just the growth of fictitious and speculative capital in circulation as present problems of devalorisation and adjustment are displaced into the future. The chaos unfolding in the lower rungs of the world market indicate that the future eventually arrives with the dire results of mass immiseration. The list of Sudan, Tanzania, Afghanistan, Turkey, Argentina and so on will continue to grow at the margins, just as inequality will swell within the centres themselves.

The revival of internationalism in the form of anti-globalization and solidarity struggles has been an important step taken by the Left and the labour movement in this context. Finding new ways to struggle for 'a different kind of state' and the extension of democratic sovereignty is a necessary next step. There are, indeed, deepening cracks in the facade of neoliberalism and the new imperialism that the Left can begin to take advantage of to pose alternatives alongside expressing opposition. If the labour movement does not overcome its own fragmentations and rebuild its political agencies, however, the militarization of neoliberalism and the world economy will continue apace as the interdependence of interests to maintain the system of power the ruling classes across the globe have invested in – with the U.S at the hegemonic centre of this world order – will figure more prominently than any reform agendas that will emerge from the rival blocs.

Endnotes

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