An Interview

The Financial Crisis and American Power

Friday 20 February 2009, by PANITCH Leo (Date first published: 16 February 2009).

Workers' Liberty. What is your assessment of the relationship between this serious financial crisis emerging foremost in the U.S. and American power and economic decline?

I don't think that U.S. hegemony has waned, and I don't think it's about to wane in the very near future, despite the current financial crisis.

In my view, the better term for the U.S. role in the world is Empire. That captures in my mind the way in which the American state plays a role of coordination and oversight and crisis-managing for global capitalism, in the absence of a global state.

It managed to do that in my hemisphere, on this side of the Atlantic, by penetrating other, independent states, in South America and North America, before the Second World War. Its capital penetrated those states and encouraged the restructuring of those states in a way that was consistent with fostering trade and the protection of the property rights of U.S. capitalists, or in fact of foreign capitalists in general.

That became generalised after the Second World War, not so much with the Third World as with Europe and Japan, which became increasingly Canadianised. European and Japanese capital, in different ways, were penetrated by American capitalists. Conditions for that were established politically. That penetration was very deep, and it was done in collaboration with the ruling classes of those countries. This was imperialism by invitation. The ruling classes saw the American state as the safest guarantor of capital's rights, especially in the countries where the labour movement was strong.

From the 30s on, European capital had poured into the United States, even during the New Deal. So this has been a collaborative type of hegemony or Empire.

When Europe and Japan were put back on their feet after the Second World War, and became competitive in terms of trade with the United States, the notion arose that meant American hegemony was fading. It was a very common view, but fundamentally misleading. It failed to understand that the Europeans and Japanese wanted the Americans to play a more active role in managing the global economy, not a lesser role. To the extent that they were unhappy with American policy, it was mainly for that reason.

That has continued through the era of neoliberalism. There have been moments where in very economistic ways, based on the size of the trade deficit or the penetration of foreign direct investment into the United States, people have predicted U.S. decline as imminent. It has proved to be wrong in every case. The American state is still seen as the most important protector of global capital.

Many people think that the deficit means that the U.S. economy is a basket case; but, through the technological revolution we've just lived through, in information technology and so on, it has managed to maintain its dynamism as a capitalist power.

The deficit has reflected the fact that the United States has been the market for so much of what is produced in the world today. It has not reflected a decline in American exports, which over the last 15 or 20 years have increased more than any other G7 country's.

To read off from the size of the trade deficit a problem in terms of American hegemony, I think, is not to understand the role that the United States, and New York as a financial centre, and American banks in London, play in terms of the glue of international capitalism. No-one is doing a favour to the United States by putting short-term capital into New York, or holding onto dollars. They are purchasing dollars and Treasury Bills because they remain the most stable store of value in a highly volatile capitalist world.

The volatile nature of international finance, in which free trade in currencies is a large factor, makes this a highly volatile set-up, and one that is prone to financial crises. Notably, not many financial crises have been dollar crises in the way that we saw sterling crises from the 1950s to the 1970s, when sterling was still a central currency. (London is still a big financial centre; but now it is essentially one of the great centres of American dollar finance).

What's been quite remarkable, at least since the 1979 Volcker shock, has been the extent to which, for all of the size of the deficit and the free floating of the dollar, there hasn't been a massive run on the dollar. Even in recent days, we've seen a rather managed decline of the dollar, and a decline which is functional to reducing the size of the U.S. trade deficit.

When the dollar got inordinately high, after the very high interest rates that established enormous confidence in the U.S. Treasury Bill and the dollar, you then had the meetings around the Plaza Accord which coordinated a readjustment.

People are constantly observing the level of the dollar, given the role it plays in the international capitalist economy. But what's astonishing is the exent to which the dollar has not suffered.

So it's like Keynes's comment that if you owe the bank $100, you have a problem, but if you owe the bank a million, the bank has a problem? The capitalists of the rest of the world have to keep the dollar up because so much of their interests are tied up with it.

Absolutely. And that reflects the degree of integration.

Marxists tend to discuss crises in terms of a decline in the rate of profit. But, by most accounts, over the last several years, profits have recovered quite considerably. Are we going to see a crisis without a prior fall in the rate of profit, or what?

Our position – my position and that of my comrade and co-author Sam Gindin – has been that the profit squeeze of the late 60s and the 70s was resolved by the defeat of labour, and to some extent the defeat of the Third World national-liberation radicalism that produced a rise in commodity prices (though we may be seeing another surge of commodity prices now).

With the restructuring that was brought about in the 1980s in the banking system and in industry, in the United States but also in Europe and elsewhere, the basis was established for profit rates to recover as they have done, especially in the last decade.

That account involves a very different interpretation of the cause of the profit crisis of the 1960s and 70s than is offered by Bob Brenner. It suggests an explanation of the profit crisis much more similar to the "wage squeeze" explanation that was offered way back in the 1970s by Andrew Glyn and Bob Sutcliffe.

We think you have to have a broader understanding of the factors squeezing profits than just wage militancy, though that was very important in some countries, in Britain and to some extent in the United States. There was a much more general range of pressures on capital that were expressed by the civil rights movement, the women's movement, the radicalisation of the students, all of which produced the fiscal crisis of the state and not as much room, for a period, for the state to cut back on corporate taxes.

Put all that together with the wage militancy of the working class, and we think that had a lot to do with the profit crisis – of course in the context of the renewed competition which made it difficult for any individual firm to raise prices.

We think that was resolved by breaking the back not only of the wage militancy but also of the tendency of the social movements to win extensions in the welfare state – by introducing neoliberalism.

Brenner thinks the crisis was largely one of competition between national capitals, and that there has been a problem ever since in terms of not enough firms exiting. They're making some profits, not as high as they used to, but they stay in business.

In our view, by contrast, we have been living through one of the most dynamic periods in the whole history of capitalism. It has been enormously exploitative, and has created enormous insecurity around the world, including in the heart of the Empire itself, but its dynamism has been related to its ability to be exploitative and create insecurity.

It isn't only a matter of increased exploitation of the industrial working class, or of the low-paid service sector; it's a matter of getting the middle class, the petty bourgeoisie, the professionals, to work for corporations enormous hours.

The recovery of profits that we have seen has been substantial and real, and not, as Bob Brenner usually explains it, a matter of ad hoc ways of getting out of a continuing structural crisis. In my view, it doesn't make sense as a Marxist to speak of a crisis that lasts for forty or more years.

Does all that rule out another serious profits crisis? No, it does not do so, by any means. We need to keep looking, even if not in orthodox terms of the "tendency of the rate of profit to fall", for the possibility of a serious profit crisis.

How serious a profit crisis will be depends, I think, on how much the rate of exploitation can be raised again – that is, on how much working-class resistance there is to the type of restructuring that allows capital to get out of it. That is why so much hinges on how we interpret all these things in terms of working-class renewal and working-class strategy.

Capitalism is crisis-prone above all in the financial sector, but it remains crisis-prone in a deeper sense in the productive sector. How serious crises are depends, in the end, on class relations. The most serious crises of capitalism are those in which it is difficult to increase the rate of exploitation. That is why the 1970s crises was so protracted, because it was difficult to increase the rate of exploitation then, given the strength of militancy of rank-and-file labour.

Has the credit system become more crisis-prone?

The system has become larger, more complex, in some ways more efficient, and also more crisis-prone. The size and complexity of it are directly related to the neoliberal re-regulation which has allowed a lot more competition in the financial sector than was allowed in the New Deal type of legislation.

The expanded credit system has been quite functional to the growth of global capitalism. When so much capital and trade is flowing round the world with free-floating currencies, you need a highly complex system of financial trading in order to be able to adjust the enormous risks involved in the marginal changes in currencies and interest rates, etc.

This goes all the way back to the situation the farmer faced in the 1870s, and still faces today. When a wheat farmer in western Canada puts seed in the soil, in the spring, he doesn't know what the price of a Canadian dollar is going to be in October, when he will be selling the grain.

One of the ways of dealing with that is by developing co-operatives, but the most fundamental way of dealing with it, going all the way back to the 1870s, when the Chicago Mercantile Exchange was established, is through a large, complex set of financial intermediations.

That farmer would go into his little local bank and begin to hedge the price he might be able to sell the wheat when he was signing a contract in April to deliver it in October; and that would go through fifteen intermediaries before it would get to the Chicago Mercantile Exchange, where there would be a trade in wheat futures.

The same was true in almost every other agricultural product. Today we see that all around the world in "derivatives." They play that role in the management of risk. It's no accident that, with the help of Milton Friedman, when Bretton Woods broke down in 1971, the market in derivatives around currencies was established at the Chicago Mercantile Exchange.

The system has become larger, much more complex. The derivatives now cover not only real products, but financial instruments of all kinds. There are a gazillion players in this market, and they are all speculating.

But, as Dick Bryan argues [*Capitalism with derivatives: a political economy of financial derivatives, capital and class*, Palgrave Macmillan, 2006] this may be the most important development in capitalism since the joint-stock company in terms of its ability to smooth out the enormous risk that's involved in this complicated and diverse global capitalism.

At the same time the system is more crisis-prone. It is more crisis-prone because it does involve speculation. It is enormously complex, and the people trading in it are operating on the basis of highly complex algebra that most of us don't understand and very few of them fully do. It's not clear, to anyone in the system, who holds a given piece of paper at a given time.

Also, neoliberal regulation is mainly self-regulation. The banks are regulated through Basel and the Bank of International Settlements and the national or regional central banks; but they are regulated in a way that requires them to be self-regulating, that is, to keep a certain amount of capital adequacy on their books; and they are able to get around the regulation quite easily.

What happened with the subprime mortgage market is that, going back to 1988, American investment banks began setting up in London the "structured investment vehicles" that allowed them to get round the capital adequacy standards that had been set up in Basel 1. They set up off-book accounts that allowed them to trade in risky products such as the subprime mortgage derivatives.

On top of it all, most national banking systems are not deep. I once heard Volcker speak at the Board of Trade in Toronto. He had just come back from Argentina. This was before the Argentine crisis. He had asked the head of the Argentine central bank what the total capitalisation of their banking system was. Before coming to Toronto he had stopped in Philadelphia, at a bankers' dinner there, and asked the second-largest bank in Philadelphia, a regional bank, what its capitalisation was. It

was larger than all of Argentina's!

So he came to Toronto and said: "Look, this is impossible. What's going to have to happen is that Western banks are going to have to buy these banking systems." The former head of the Bank of Canada got up – and this guy is a pure monetarist – and said: "Well, that is all well and good, but most countries don't want their banking systems to be owned by foreigners."

So there are contradictions, as well as efficiencies and functionalities, in this highly volatile, global financial capitalism.

The central banks and the finance ministries – and the Federal Reserve as a proto-world-bank, and the Treasury, though it has played this role less under Bush than it did under Clinton – have managed to keep the capitalist system going; they have managed to fire-fight; the crises have been contained, from moment of chaos to moment of chaos.

One never knows whether they can keep on doing this. Their main function in terms of regulation is to know enough about the players in the financial market that they can manage crises. We may be seeing, out of this crisis, a turn toward increasing mandatory regulation, which will also be coordinated.

I still think the system would be mostly self-regulated. It would be like Sarbanes-Oxley, where the boards of directors are required to sign off on accounting papers and become legally liable.

But maybe global capitalism doesn't have to continue to be neoliberal in the sense we have known it. I wrote an article ten years ago called *The Social Democratisation of Globalisation*, and I think that is possible out of the current crisis. How far it will go, and whether it means anything in terms of shifting the balance of class forces – that really depends on whether the working classes, broadly defined, manage to act to shift the balance of class forces from below.

But I do think it's possible that out of this crisis there will be more directive oversight on the part of capitalist states and the American state, even if the crisis drags on, as it may do, for a couple of years, with a shake-out in the banking system that produces further concentration in it.

The Federal Reserve and the European Central Bank have followed sharply different policies in the current crisis. International coordination doesn't seem to be working very well.

Yes and no. Going back to the beginning of this particular crisis, last August, there was immediately coordination between the U.S. Treasury and Federal Reserve in terms of throwing liquidity into the markets, and the European banks threw most of it in.

Some of the banks hit mostly heavily by the crisis with the subprime derivatives were ironically the quasi-public Landesbanks in Germany, and the European Central Bank, really acting for the Bundesbank, oversaw the remedial measures.

Interestingly, most of what they pumped in then immediately made its way to London, to the interbank market. There was coordination then.

Then there was coordination around the liquidity thrown in in December.

So on that level there been quite a lot of cooperation, and the European Central Bank has played a central role.

On the question of inflation, however – on the question of whether lowering interest rates is the way

to go – you're right. It partly reflects the fact that the Bundesbank – and the European Central Bank has carried the same tradition forward – has always been, from the time Bretton Woods began, much more monetarist than any other central bank, much more concerned about inflation.

The New York Fed has been much more pragmatic about that. And it has had the room to be, because of the world confidence in the Treasury Bill and in the weakness of the left in the United States – there is much more confidence in the guarantee that the American state offers against default. Also, the United States is more populist. The Fed does not have the de facto independence from the political system, that the European Central Bank has.

The different approaches are also, I would guess, a reflection of different policy judgements. There's a sense that the lowering of the interest rate is not enough, in itself, to make the financial system ready to be lending, and you see this in the fact that long-term interest rates are not declining. People have been saying that the Fed is pushing against a string, and that may be the case to some extent.

There is one way in which I think the Fed has acted as world central bank in a way that the ECB never does – so you see the hierarchy of imperial apparatuses here. When there were the beginnings of a stock market crash, in Asia and spreading to Europe, in January or early February, the Fed met on a Monday night and then on Tuesday morning announced the big interest rate reduction. The Fed felt it had to send that signal of a drastic reduction in interest rates, not so much for what it would accomplish, but for its symbolic effect in terms of reassuring the stock markets. The stock market has traditionally taken the view that a reduction in interest rates means that people shift from bonds to stocks, though I'm not sure how much that continues to operate today. In any case, the signal from the Fed did have an effect.

There's a special role which the Fed plays which the European Central Bank does not play vis-a-vis global stock markets.

Some financial crises in recent decades have had relatively little knock-on effect on trade and production. Do you think that one factor in this is that the financial sphere is feeding much more off consumer credit? And then could we see this financial crisis, rather bigger than previous ones, feeding into a crisis in trade and production initially through a reduction in consumer spending rather than in investment spending?

So far, the indication is that it's not impossible in Europe, or in North America, or least of all in the Third World, to be raising funds for investment.

If the derivatives play the central role they do, as Dick Bryan explains, in hedging risk, there is a question whether the financial crisis will affect trade in the long run.

People tend to overlook the extent to which, even though real wages have not increased, or not increased much, since the 70s, living standards for workers in the advanced capitalist world have gone up. They've gone up primarily through those workers becoming integrated into finance.

They've gone up to the extent to which those workers have become indebted and the financial system has been willing to integrate them through the enormous growth in the credit card market and in mortgages. That is also reflected to a certain extent in the fact that workers' savings have been picked up through pension funds and institutional investment so that workers tend to think of themselves, astonishingly, as investors whose net wealth will increase as they get older.

That all went so far, and then it fell apart, because it penetrated, not only in the credit card market

but also in the mortgage market, to that portion of the American working class which has always been the Achilles heel of the integration of American workers into the American dream, and that is the African-American working class.

You don't understand it at first when you walk around Washington Heights in New York and you see unemployed young black men wearing $200 sneakers. They're doing it on credit. It seems hard to believe that capital extended the types of loans it did to African-Americans in Cleveland to buy sub-standard housing stock with the promise that it, too, would increase in value; but it did that.

The question now is whether the ability of advanced capitalism to integrate workers through the credit market has run up against its limits, and what are the implications if it has. What are the implications in terms of economic crisis, and what are the implications in terms of workers not taking it any more.

One wishes one would see much more radical protest than we have seen so far around the housing crisis in the United States. You hear enough about it in terms of politicians talking about people being affected as victims, but you don't yet see much mobilisation. That's not to say there won't be.

There is speculation in the Wall Street Journal today that the market is waiting for the American state to buy up all this bad debt – whether directly through the Fed, or through a special agency – in other words, to socialise it. The Wall Street Journal quotes one analyst from a private investment firm saying that he is not predicting that this will be done, but he is saying that it is what the market is looking for.

The operation would be like the British government has done with Northern Rock, but on a massively bigger scale. The bad debt even in the United States is probably in the hundreds of billions of dollars, let alone the total around the world.

It's conceivable that might happen, and then the consumer's ability to get into the credit system would be replenished. But that hasn't happened yet, and I don't want to predict it necessarily will. It's not impossible that this crisis will be dealt with by Band-Aid measures, and it could lead to a significant shake-out whereby regional banks in the United States would close, intermediaries would go bankrupt, a piece of Citibank might be sold off...

I remember the late Harry Magdoff saying to me, in his apartment, after the stock market crash in 1987, when the question was to what extent were the banks implicated by their loans to the stockbrokers: "Well, so they'll nationalise a couple of banks!"

In this context we have to understand nationalisation in an entirely different way than one might have understood it as a left-wing social democrat in England in 1945.

It's socialism for the rich!

Exactly. In the first place for the rich. But not only for the rich...

Even the perspective of a massive bailout implies that the edges of the consumer credit system are pulled back in. Northern Rock is not writing ultra-easy mortgages any more.

Yes. And they're very worried about it. They're very worried about the fact that the financial system is reluctant to lend.

On the other hand, Martin Wolf in the Financial Times says essentially that what the Federal Reserve is doing might work, but he sort of hopes it doesn't, because there are

fundamental structural problems with the very low level of savings in the USA, and if the Federal Reserve's measures allow things to stagger on a bit further, they are just paving the way for a bigger crisis down the road.

Yes. Wolf's a very smart guy. There's a more reactionary variant of the same argument coming from the Wall Street Journal.

You hear the argument that if the Fed had not lowered interest rates in 2001 after the "new economy" bubble and 9/11, you wouldn't have had the housing bubble. But what are they saying? That they'd prefer to have this crisis then?

They're saying that they'd prefer to have a smaller crisis now that forces the resolution of unsustainable imbalances, before those imbalances become bigger.

But the fact is that agencies like the Fed are going to try to prevent crises – or, if not to prevent them, to stop them being catapulted into global capitalist crises. That is their nature.

Ben Bernanke, the head of the Federal Reserve, wrote his PhD thesis on how the Fed and the Treasury could have prevented the Great Depression by supplying liquidity to the banking system instead of playing the orthodox banker role and requiring that the books be balanced. As I read all the inclination in the American state, and I think for the most part in Europe, that is the role that the central banks will try to play.

Also, I don't see that the result of a bigger crisis would be that Americans started saving again. I don't see that people would have the capacity to save. On the contrary, you'd see a rundown of savings of wealth.

The greatest imbalance that people worry about is the U.S. trade deficit. But that is being dealt with, so far, by this relatively managed decline of the dollar. There may be inflationary consequences; but the deficit was up at 7%, and it has fallen to 5% of GDP.

Moreover, we need to remember that the world is not doing America a favour, as accountants seem to think, by covering the deficit with short-term capital inflows. People are buying Treasury Bills today because in this highly unstable world they are the closest things to gold that pays some interest rate. People are also buying gold and commodities and so on, and that reflects the volatility, but in so far as they are buying bonds, and they are, they are buying Treasury Bills.

In Gindin's and my view, only the United States, by virtue of the asymmetrical nature of power in today's capitalism, can sustain such a deficit for a long time. But it can, because of the role that the dollar and the U.S. Treasury Bill play in the world economy.

It's a bit like London, as a financial centre, and its "trade deficit" vis-a-vis the UK. It's a bit like New York, and its deficit vis-a-vis North America.

Without thinking at all that national borders have been done away with, I think we need to look at the American deficit in the light of the special role of the dollar, which I don't the euro is about to displace.

What about the effect of the decline of the dollar, and the resulting squeeze on U.S. imports and rise in U.S. exports, on China and the other big new exporting countries?

I don't have a crystal ball. The people who talked about "decoupling" are wrong. There is no "decoupling" that China can yet do from Western markets, above all from the American market. In

that sense, to speak of a realignment of forces in global capitalism, as Giovanni Arrighi does, is misleading.

We are seeing an increasing integration of global capitalism. China's role in global capitalism is much enhanced. But realignment is not the right word, if it is understood as Chinese capital displacing American capital, or Chinese power displacing American power.

But the decline of the dollar could have inflationary effects in those countries whose currencies remain pegged to the dollar.

If the measures that have been introduced in China to alleviate some of the discontent of the working class, whereby they've offered some labour-standards protections and some requirements for representation by the party-run Chinese unions, or the promised reform of the health system, were to come through, and you were to get inflationary pressures, you might get considerable class conflict, and that might spill over into regional conflict inside China. The uneven development in China is astonishing, and people in the regions not undergoing rapid capitalist development are highly dependent on remittances from workers in the cities.

The repercussions could be very real. But the different new exporting powers are all very different. Brazil and Russia are doing very well out of the high price of commodities, which represents a cost to China and India.

I find it very difficult to gaze in a crystal ball here, given the enormously different social formations we are talking about, or to make any hard predictions.

You said that out of this crisis we will see more directive oversight by capitalist states, and we might even see something you called "the social-democratisation of globalisation." Do you see things going that way? And what will it look like?

With all the calls for regulation; with states buying shares in banks, not taking any directive control over them, but using moral suasion the way Brown has been doing to get them to reduce interest rates as the Bank of England reduces interest rates; with the kind of fiscal stimulus programmes that all the governments are committed to – the British and the Americans, interestingly, more than the Germans – I think you are getting a "social-democratisation of globalisation."

Bear in mind that my view of "social-democratisation" is that it is in no sense the old type of reformist, gradual socialism. It is "social-democratisation" in the sense of what the Labour Party has become under Blair and Brown.

So this is not social democracy as in the 1940s, 50s, and 60s?

No. I never had a very positive view of that in any case. That orientation was more about corporatist arrangements with labour. I don't see much of that going on. I see that it's unlikely that Obama will press for the labour legislation that U.S. unions have been calling for. That would be more like an old-style social-democratisation.

The governments are trying to put into practice everything that economists can suggest to them, in the way of stabilisation policies, that they have learned from the study of the 1930s and from the depression in Japan in the 1990s. How would you assess the possibilities, the limits, and the defects of these as stabilisation policies?

We have seen massive drops of liquidity into the banking systems. We have seen it being decided that the problem is solvency, not liquidity, and the governments putting public capital into the

banks, so that the banks will have enough trust in each others' solvency to lend to each other. None of this is solving the crisis.

This indicates that the banks may not be able to go back to lending at their previous rates. The decades-long process of banking and financial-system securitisation, where lending has been done on the basis of slicing and dicing and repackaging loans so as to turn them into securities to be traded internationally, was a fundamental basis for the dynamism of financial capitalism and globalisation in the last twenty years or more.

That system of securitisation is now weak everywhere, even in corporate financing, and not only in the financing of mortgages and consumer debts. It has largely imploded. That is in large part why the banks have not been lending – they have been restructured to depend on doing lending through that securitisation.

That indicates that the crisis is really very severe. In terms of what is to be done about it, it raises – and we should be raising, as socialists – the obvious question of converting the banks into a public utility.

In a complex society, you can't have banking for the masses without having state guarantees of deposits. The system has been kept going on the basis of central banks acting as lenders of last resort. The case for the banks being brought into public ownership properly needs to be put on the agenda, much more vociferously than the left is putting it on the agenda.

I do not mean, as in Britain, just giving public capital to the banks and saying please operate on commercial lines, a move involving no executive powers whatsoever. I mean taking the banks properly into public ownership and changing the function of the banks, as Mitterrand did not do in France in the 1980s, so that the criteria on which they invest are redefined as social purposes, to be democratically determined.

Looking back on it, the subprime mortgage crisis seems to involve tiny sums, compared to the fall-out now. How did that subprime crisis – sizeable, but small compared to what is in play now – produce such huge repercussions?

The subprime crisis was comparatively small, but subprime mortgages were packaged with other mortgages and then the securities were sold on. People were buying general mortgage-backed securities based on a mixture of mortgages. When the defaults started in the subprime sector, it became difficult to sell, or to sell on, any mortgage-backed securities.

It had the effect of making the banks more reluctant to lend for new mortgages, and that helped burst the house-price bubble. Then the loans made more generally on the basis that house prices would continue to rise were called into question. You got a vicious circle in the whole housing and mortgage sector.

Once you had this loss of confidence, and inability to value securities – you didn't know how to value those securities any more, because you couldn't sell them; the formulas on which the valuations of those mortgage-backed securities fell down – then a whole set of questions came onto the books in respect to other sorts of securities and how those might be valued.

Here there is an element of confidence and psychology. However much we as Marxists see that as not primary, it is an element. The banks knew damn well how over-leveraged they all were. They began to wonder whether even the people they lend overnight to – the other banks – were solvent. They became reluctant to lend.

And so the disturbance moved beyond the original source of the problem. Insofar as the risk was spread so widely – and that was the point, credit was cheap because risk was spread so widely – it pulled in vast sectors in other countries and across the world.

You could say that the crisis was triggered by the subprime crash. There is a certain racist element to the story, insofar as the growth of subprime mortgages was the attempt to incorporate the black working class through finance into the American dream. When that weakest link in the chain of financial capitalism went, then – unlike when Lenin used the metaphor of the weakest link for Russia in the chain of world capitalism – it began to undo the whole chain.

A few months you said that you thought U.S. hegemony had not waned, and would not wane in the very near future. I agreed with that then. But you compared that U.S. hegemony with the sort of hegemony that a financial centre like New York or London has in its national economy. It used to be the case that the global financial markets, centred in New York, centred round the dollar, were where any large capitalist anywhere in the world could go for credit. Isn't that ceasing to be true? Aren't governments and firms looking elsewhere for credit? Aren't we seeing the beginning of that process of U.S. hegemony waning?

I don't think so. I'm not sure where else people would go for credit. And in fact capital has flowed to the dollar and to the U.S. Treasury Bill. That is puzzling unless you understand that the U.S. state is the state of global capital. Despite everything that has happened, global capital still looks on the U.S. as the safest haven and the ultimate guarantor. And the U.S. government has behaved that way. The decisions to nationalise Fannie Mae and Freddie Mac and AIG were taken very much with an eye to the U.S.'s responsibility to honour its commitments to China and Japan and Germany and Britain – above all to China, because the Chinese had bought a lot of Fannie Mae and Freddie Mac securities.

The American state is absolutely central. It is no accident that the G20 meeting took place in Washington. Everyone sees that whatever resolution there is to this crisis will have to be undertaken under the aegis of the American state, and everyone is hoping that Obama will be able to provide the kind of leadership – for capitalists – that will accomplish that.

So I think the American state is still very much at the centre of global capitalism. The material underpinnings of that hegemony have rested in part on New York as a financial centre. So it's a good question, what happens to that hegemony if New York seizes up as a financial centre? But I just don't see what could conceivably replace it. Certainly nothing in Asia could replace New York as a financial centre. People can start arguing that the Chinese state has financial clout, but we see how much the Chinese economy has been affected by this crisis originating in the U.S. economy.

It will certainly be an enormous challenge for the Americans to hold it all together. But it is only the Americans that can hold it all together; and all the world's capital, more than ever, is looking to the Americans to hold it all together.

But if the U.S. government does it very imperfectly…

Yes, but I don't see any grounds for serious inter-imperial rivalry unless there are fundamental changes in the balance of class forces and state structures in other parts of the world, so that countries move in a national-socialist, fascist direction which would break down globalisation, or there is the kind of change in class relations that would put socialist options on the agenda, which would mean disarticulating from capitalist globalisation and attempting to re-articulate on the basis of new international socialist strategies. On the basis of the class configurations that exist in the regions outside North America, I don't see either of those things happening soon.

The question remains of whether the Americans will pull it off. If they don't, will that produce social and political disruptions that would lead to something else? Maybe. But on the basis of the current configurations, with the types of capitalist classes and state bureaucracies that are oriented to maintaining the relationships that have developed over the last 30 years under global capitalism, I don't think we can speak seriously of inter-imperialist rivalry.

P.S.

* From The Bullet, Socialist Project • E-Bulletin No. 186
February 16, 2009. This article first appeared on the Workers' Liberty website.

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