2. Rethinking production, finance and hegemonic decline in IPE

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IPE as a field in the academic International Relations discipline was born at a time when the breakdown of Bretton Woods and the growth of economic nationalism in the third world appeared to signal not only the downfall of the dollar but also the erosion of US hegemony. It indeed took a whole decade to realign the balance of class forces both domestically and internationally so as to exit the crisis of the 1970s in a way that, in contrast to the 1930s, accelerated the globalizing dynamic of capitalism, and did so, moreover, under continuing US leadership. This occurred as the process of market liberalization to promote greater economic competition was beginning to be registered, aided by the US Treasury's efforts in particular (including the creation of the G7 as 'a vehicle for providing support and endorsement for US-generated initiatives and ideas') to sustain and develop a common purpose and solidarity along these lines (Baker 2006: 11, 26). And this would soon be followed by the Treasury's no less successful efforts in turning back the challenge of third world economic nationalism.

What was significant about the way the 1970s crisis was resolved was that rather than *displacing* US postwar hegemony, it opened up the space for both the renewal of the material foundations of American leadership and the further integration through the course of the century not only of the Western European and Japanese states, but for a good many 'emerging market states' in Eastern Europe, Asia and the 'Global South'. To grasp all this properly requires an understanding of the relationship among production, finance and the American state that has too often been missing from IPE.

US HEGEMONY FROM THE BRETTON WOODS CRISIS TO THE VOLCKER SHOCK

The growing centrality of the American state's role in global capitalism through the crisis of the 1970s showed that whatever problems and frictions US balance of payments deficits might produce, they did not have the same implications for the US as they would for any other state. Far from necessarily representing a diminution of American power, the outflow of capital from the US and the balance of payments deficits that had so concerned economic and political elites through the 1960s had actually laid the basis for further dollar-based credit expansion and financial innovation both domestically and internationally in the 1970s. The capacity to achieve this, however, still rested not only on the international activities of the American state but also on the material base of the American empire at home. For example, US expenditure on research and development at this time was about four times that of the countries of Western Europe combined (Kindleberger 1970). In the newly developed business computer market (with the personal computer market, initially fully dominated by the US, still to come) US firms accounted for one-third of the computers in Japan, half of those in the UK and France, and more than three-quarters of those in West Germany (Hart 1992: 14; Olegrio 1997: 354–5; Lecuyer 2006: 25). Moreover, the US also retained its competitive advantage in agriculture. Alongside the enormous expansion of US agriculture, with its productivity continuing to outpace that of non-farm industries though the 1970s, the US not only benefited from high commodity prices, but saw its overall agricultural exports increase between 1972 and 1980 by an average annual rate of 8.9 per cent (Clayton 1981: 75).

This technological lead reflected a distinctive American combination of supporting factors: new commercial opportunities emerging from the military–industrial complex; university research serving private innovation; early access to venture finance, alongside secure property rights; a base of skills in engineering, optics, chemistry and metallurgy, as well as sales; and the mobility of managers across firms and regions, which helped to disseminate and further commercialize the new technology. The direct role of the American state itself was especially important: agencies from the Pentagon to the Department of Health ensured that 'government funding and infrastructure played a key role in such technologies as computers, telecommunication satellites, jet planes, civilian nuclear energy, lasers and ultimately bio-technology' (Block 2008: 174–5). European capital now flowed to the US (where half of all global total FDI was located by the end of the 1970s), not so much to avoid protectionist measures as to have access to the wide range of research, productive, financial and sales capacities that were constitutive of the richest market in the world (McCulloch 1991).

The significance of all this was recognized in an April 1973 memorandum prepared for Treasury Secretary George Shultz by Bill Casey, who had just moved from chairing the SEC to become Undersecretary of State for Economic Affairs (he would later become Reagan's CIA Director).

Casey argued that 'the dollar's problem comes from a failure to properly assess the solid assets which lie below the surface. . . The US is still dominant in computers, photography, pharmaceuticals, medical technology, aerospace, nuclear power, home building, heavy industrial machinery, off shore drilling utility operations and so on.' So in direct contrast to the State Department's traditional position for so much of the twentieth century, Casey presciently argued that 'trade need no longer be the only source of major gains in our balance of payments'. It was precisely because the US could instead make 'securities an export' that it had 'such a large stake in the creation of better capital markets and in a better interrelationship of capital markets around the world. Fortunately know-how is one of our great assets and the securities markets of the world are becoming increasingly internationalized.' All this would allow US financial institutions, Casey insisted, 'to take the leadership in the developing global securities market' as long as there was also extensive action by other states to establish 'common rules of the road in the various capital markets' (Casey 1973).

Immediately after the collapse of the Bretton Woods system of fixed exchange rates, the Chicago Mercantile Exchange (CME), the world's central futures market in livestock long after the slaughterhouses were gone from Chicago, gave birth to the financial derivatives revolution by inventing a futures market in currencies. The Chicago Board of Trade, which was also still the world's centre of futures trading in wheat, corn and soya even though grain was no longer stored in Chicago, soon followed by launching a futures market in US Treasury securities. The key role state regulation played in the process was indicated by the creation in 1974 of the Commodity Futures Trading Commission (CFTC) to regulate derivatives in a way that facilitated their development. The head of the CME, Leo Melamed, explicitly recognized that the CME's plans for derivatives 'were ambitious and could be greatly assisted by a federal stamp of approval' (Melamed 1992: 108). The CFTC proved keen to promote the spreading and hedging of risk, including by the many non-financial corporations which invested in derivatives to protect themselves from volatile commodity prices, floating exchange rates and fluctuating interest rates. The derivatives revolution was also intimately linked to the internationalization of the US bond market, which was occurring at the same time as the development of the separate Eurodollar bond market. The financial uncertainty that followed the collapse of the fixed exchange rate system amid the inflationary conditions of the time actually enhanced the attractiveness of Treasury bills to international investors, who recognized the depth and liquidity of the US bond market despite all the hand-wringing about declining US power and economic strength (Aquanno 2009).

In addition to the creation of new agencies like the CFTC, a new interdepartmental Council on International Economic Policy was created, designed to operate along the lines of the National Security Council in terms of pulling together 'domestic economic developments and our broad foreign policy objectives' (Shultz 1974: 7–8). It was headed by the Secretary of the Treasury, which in this period considerably advanced its claims to play, right across the policy spectrum, 'a leading role in the international as well as the domestic sphere' (Simon 1975). With very few exceptions, the Treasury's consistent and effective opposition to the use of countervailing duties in relation to investigations of unfair trading practices by other states through the crisis of the 1970s permitted it not only to fend off the implementation of domestic protectionist measures but to use the threat of these as lever for the liberalization of foreign markets, including in relation to what were increasingly being identified as 'non-tariff barriers' associated with other states' domestic regulations (Chorev 2007; Dryden 1995; Essex 2007).

The more immediate challenge that the Treasury still confronted, if the dollar's new role as the anchor of global capitalism was to be made secure, was its incapacity to cope with the continuing impact of domestic inflationary pressures on global financial markets. This involved, above all, breaking the power of American trade unions. An attempt to do this had been made at the end of the Johnson administration and the beginning of the Nixon one. As the Bretton Woods crisis came to a head, the Treasury undertook fiscal restraint and the Federal Reserve pushed interest rates up to 10 per cent. This attempt collapsed by early 1970, not only in the face of a strike wave that involved one out of every six unionized workers, but also because the high interest rates induced a crisis in the commercial paper market through which investment banks raised funds for corporations (Panitch and Gindin 2012). With the realization that a tightening of monetary policy was having the effect of inducing a financial crisis, the central bank's role as lender of last resort to keep the financial system afloat overrode the commitment to defeating inflation. This already showed how far the deep structural relationship between Washington and Wall Street could not but be affected by the new volatility of financial markets, all the more so since major non-financial corporations were also increasingly embedded in those markets.

The decade of crisis appeared to come full circle when President Carter appointed Paul Volcker, who had overseen the US Treasury's response to the dollar crisis of the late 1960s, to head the Federal Reserve. What was now required to resolve the dollar crisis, Volcker insisted, was to 'discipline ourselves', by which he meant that the Fed had to discipline *itself* this time to see through a policy of pushing interest rates to such 'painfully high' levels as would prove that beating inflation trumped all other policy goals (Volcker and Gyohten 1993). By the end of the 1970s most industrial sectors of capital had come to accept the need to give priority to fighting inflation and defeating labour, and agreed that the strengthening of financial capital that this would involve was in their own interest. This was crucial for the new age of US finance that took off in the 1980s, as well as for making the US Treasury bonds that covered the Reagan administration's fiscal deficits seem as good as gold (indeed, since they paid interest, better than gold). Many critics at the time insisted that high interest rates would not only block economic growth but expose US industry's vulnerability to competition from Europe and Japan. In fact, the imposition of class discipline to break the great inflation and the wage militancy of US labour, strongly confirming the American state's commitment to property, the value of the dollar and the inviolability of its debt, laid the basis not only for the new age of finance but also for the broader restructuring of the US economy.

RENEWING THE MATERIAL BASE OF US HEGEMONY AT HOME

Four specific transformations in the last two decades of the twentieth century were especially important in this restructuring. The first of these was the relationship between industry and finance. The new age of finance was often portrayed as diverting corporate funds from potentially productive investment to speculative activity, forcing corporations to look for high immediate rates of return rather than longer-term growth in order to maximize 'shareholder value' (Orhangazi 2008). The new age of finance certainly did involve enormous speculation, and was accompanied by much economic irrationality. Yet, as was proved in the following decade's remarkable productivity growth in manufacturing, amidst an expansion of unprecedented length, it is a mistake to see the dominance of finance in terms of speculation displacing productive activity. The greed that lay behind the assertion of shareholder value, and that drove so many of the corporate mergers and industrial closures, should not blind us to the way in which the broadening and deepening of US financial markets, including their ability to attract so much capital from abroad, expanded the availability of relatively cheap credit for US firms. This was seen not only in the enormous growth of the commercial paper and corporate bond markets, but also in what has been called the 'financialization' of non-financial corporations. Without this generally becoming the foundation for their central activities or their profits, large corporations increasingly engaged in financial arbitrage themselves, using both the credit subsidiaries they had developed to attract consumers and their own bond and equity portfolios.

As for the impact of financial discipline on corporate governance, this was not so much imposed on managers as used by them to facilitate and accelerate restructuring within firms and across industries. Moreover, the massive reallocation of capital that was involved in restructuring the US economy would have been inconceivable without the role financial markets played not only in pushing so-called 'inefficient' firms out of business and funding mergers but also in supporting risky but innovative start-ups through the US's unique venture capital markets, whose disbursements grew ten-fold in the 1980s alone (Gompers and Lerner 1999: 13). The development of derivatives products was also important, not only for limiting exchange-rate and interest-rate risks for corporations but also for assessing and comparing alternative accumulation strategies across both space and time; risk management, like transportation and marketing, should not necessarily be seen as a drain on the productive sectors of the economy, even if it does increase systemic volatility.

The second transformation, the one most associated with the thesis of US decline, occurred in the core industries that had fuelled American economic dynamism in the postwar era. The old labour-intensive sectors like shoes, textiles, food and beverage had seen a sharp contraction well before the 1980s, but it was rising imports and the corresponding loss of jobs in steel, auto and machinery that occasioned alarm about the state of American manufacturing. But more was going on here than the word 'decline' could adequately capture. By the end of the century, a major restructuring had occurred within these industries. In the auto industry there were 18 assembly plant closures between 1988 and 1999, but 13 new plants also opened, while the 66 auto-parts plants that closed over these years were more than offset by 184 new parts plants. Moreover, the number of plant expansions greatly exceeded the number of downsizings (Aschoff 2009; 2011). The direct foreign investment flowing into domestic US auto production, primarily from Japanese companies, expanded rather than diminished the US industrial base. The spatial relocation of the industry involved not only Japanese (as well as some German and South Korean) corporations concentrating their production in the states of the US south, but also saw GM and Ford opening plants there (they also opened new plants in the mid-west states, sometimes just a few miles away from where old plants had closed).

This was accompanied by the reorganization of workplaces everywhere in the US to facilitate 'lean' production and outsourcing. The emulation of Japanese firms in this respect was enhanced by the possibility of outsourcing to non-union plants, decreases in transportation and communication costs, and the logistical coordination that computerization facilitated. Outsourcing was also directly promoted by the state, as was seen when federal loan guarantees to Chrysler were made conditional on it. Alongside the relocation and reorganization of production, the 'Big Three' US auto companies responded to foreign competition by shifting output towards truck and SUV production in the 1990s, where they retained a strong competitive advantage. This too was at least indirectly promoted by the state, whose commitment to low interest rates and low energy prices sustained the market for such expensive and fuel-hungry vehicles. This shift restored the Big Three's profitability through the 1990s – and it was this, not pressures from financial capital, that led them to close their eyes to the implications of oil price hikes for future car sales, let alone the environmental costs to society. A significant indicator of the transformation going on in the automobile industry was that through the 1990s US auto firms (including the Japanese transplants) were the leading purchasers of high-tech equipment. In steel, where US firms had lost their technological leadership, they carved out new market niches in high-quality steel while a series of mergers, especially with Japanese companies trying to escape quotas on steel imports, generally narrowed the technology gap with US competitors (Fine et al. 2005). And the machinery sector responded to the increasing competition it faced from abroad, including increasingly from Asia, as it led the world in the move to computerized equipment and software.

All this brings us to the third transformation: the shift to high-tech manufacturing production. This new industrial revolution – which soon spread globally and encompassed computer and telecommunication equipment, pharmaceuticals, aerospace and scientific instruments – was largely American-led in terms of its origins, concentration and the mechanisms of its subsequent diffusion abroad. The new computer and information technologies that had emerged in the 1960s really proved their worth to industrial and service corporations in the 1980s and especially in the 1990s. With labour resistance now greatly diminished, corporations were more willing to undertake the heavy additional investments that were needed to accompany the employment of the new technologies, in terms of the reorganization of work, management systems and relations with component suppliers. And US financial markets stood uniquely ready to finance budding high-tech commercial ventures. Financial institutions were, at the same time, themselves early and crucial players in the information revolution, providing the major market for computers and software, and developing key information technologies and systems for themselves and others (Klein et al. 2003; Berger 2003).

US high-tech firms also benefited from public subsidies, sometimes indirectly, as in the case of military procurement, but often directly in the form of government laboratories linked to particular departments (defence, energy, health, agriculture); and increasingly through the growing commercial role of American universities, aided by legislation expanding the property rights of university researchers. Indeed, Congress's general bias in favour of corporate interests was reinforced by its concern for US security interests in the high-tech arena. Congress showed great flexibility in lowering standards geared to public protection, especially in pharmaceuticals, as its interest moved 'from the safety issues of the 1970s to the upcoming "bonanza" of biotechnology' (Loeppky 2004: 503). With these supports American capital proved capable of expanding even further into new research-intensive sectors, often inventing entirely new sectors for accumulation. At the turn of the century, even not counting the extensive high-tech production by US TNCs abroad, some 35 per cent of global high-tech production took place within the US – the same as the share of all global manufacturing held by the US in the early 1950s. The EU as a whole had a share of 24 per cent, Japan 21 per cent and China 3 per cent (National Science Foundation 2010). Shored up by its high-tech sectors, during 1983–99 US manufacturing output grew faster (4.2 per cent annually) than overall GDP (3.7 per cent) (Economic Report of the President 2002). The restructuring led to manufacturing productivity actually growing faster in these years (3.3 per cent annually) than it had in the 'golden' 1950s and 1960s (when it averaged 2.4 per cent) (US Bureau of Labor Statistics 2012). This enormous productivity growth was reflected in an increase in overall manufacturing volume of 90 per cent over the same period, while manufacturing employment showed virtually no increase at all (Economic Report of the President 2002).

The fourth structural transformation in the economy revolved around the growth of a diverse range of 'professional and business services' that ranged across consulting, law, accounting, market research, engineering, computer software and systems analysis. Here, the number of jobs increased dramatically. In 1983 employment in this broad sector was less than half that in manufacturing, but by the turn of the century employment – growing even faster than in financial services – had doubled, and matched total manufacturing employment. Not all of these jobs were 'knowledge-intensive', nor were they all new – many were clerical, and had previously been done by corporations in-house. Nevertheless, they brought a new set of strategic economic relations into play. Specialization in such activities by American firms spanned many countries as their services were sought out by foreign companies anxious to operate more 'efficiently' along neoliberal and 'new public management' lines. They were sought out too by foreign governments concerned to navigate the new currents of international trade treaties and commercial law. At the end of the century, the US's global share of professional and business services, measured by revenue generated, was close to 40 per cent (National Science Foundation 2010).

The development of this sector was closely related to the accelerating expansion of finance from the 1960s onwards, through which major changes occurred in the nature of what financial institutions did, taking them beyond credit provision and directly into the heart of the accumulation process. The American Dream has always entailed promoting popular integration into the circuits of financial capital, whether as independent commodity farmers, as workers whose pay cheques were deposited with banks and whose pension savings were invested in the stock market, or as consumers reliant on credit – and not least as homeowners subsidized by the tax deductions allowed on mortgage payments. But in the context of intensified competition, stagnant wage income and more sophisticated financial markets, this incorporation of the mass of the American population now took on a more comprehensive quality. Gains through collective action gave way to individual adjustments in lifestyles, from young couples moving in with parents to save for a down payment on a house, to a family decision to cancel a vacation and use the money to buy a 'home entertainment system'; while longer hours of work stole from workers even such time as they had once had for self-education and social and political activity. Workers reduced their savings, increased their debt and looked to tax cuts to make up for stagnant wages; they cheered rises in the stock markets on which their pensions depended and counted on the inflation of house prices to serve as collateral for new loans, provide some added retirement security and leave a legacy for their children. All this, along with increasing inequalities among workers themselves, left a working class more individualized and fragmented, its collective capacity for resistance more severely atrophied than at any previous time in the century.

These transformations – the new age of finance, the restructuring of manufacturing, the explosion of high tech, the ubiquity of business services and the profound defeat of labour – reconstituted the material base of American hegemony. This was crucial for the way global capitalism was 'made' in the final decades of the twentieth century. A truly global financial system based on the internationalization of the US financial system became 'neither a myth nor even an alarming tendency, but a reality' (Grahl 2001: 44). American TNCs, expanding much faster globally than at home, transferred technology abroad (yet comfortably maintaining their home research and development base), while high-tech manufacturing came to both encourage and depend on global networks of competitive production that drew on expanding pools of newly-proletarianized labour (cf. Delgado Wise and Martin, this volume).

RENEWING THE MATERIAL BASE OF US HEGEMONY ABROAD

The defeat of US labour in the early 1980s corresponded not only with the defeats suffered by the Left across Western Europe and the demise of the sclerotic Communist regimes in the East, but also with the defeat of radical nationalist and socialist forces in the developing world where, in the midst of the widespread debt crisis of the 1980s, many states now adopted strategies compatible with their integration into global capitalism. Import-substitution strategies were abandoned, export-oriented strategies in East Asia succeeded in breaking with capitalist underdevelopment, and the regions of the globe that had been closed to capital accumulation under Communist regimes were added to the global capitalist economy.

The creation of the European Union, so widely interpreted as constituting a challenge to American hegemony, turned out to be something altogether different. Especially significant in this respect, and indeed for the overall shift in the balance of class forces in Europe, was the transformation of European financial markets along US lines. The City of London, which had since the 1960s served US banks 'as a laboratory for financial innovation' at the centre of the Euromarkets, was the leading site of this Americanization (Moran 1994: 169). As one experienced City insider put it:

> The triumph of American values and American ways provided an ideal background for the Wall Street investment banks. What more powerful message can there be than: 'If you want to compete in an American-style market place and secure access to the vast pool of American capital who better to service you than an organization that is imbued with these practices and epitomizes these values?' (Golding 2001: 26).

The most influential European banks and corporations emulated American practices, while at the same time substantially increasing their investments in the US. US TNCs as well as Wall Street investment banks were themselves major players in the corporate mergers and acquisitions in Europe which were so important to regional integration. The capital expenditures of US TNCs in Europe more than doubled in value within the first five years following the passage of the 1986 Single European Act, and continued to rise through the 1990s. At the same time the two-way flow of FDI, incorporating as it did networks of production (components flowing in both directions before being assembled into final products for diverse markets), made the economies on both sides of the Atlantic more and more interdependent and pushed the free trade agenda well beyond European regional integration. The training of European managers was strongly linked to the leading US business schools, ensuring that the management practices that made the most impact were first 'validated' in the US (Carpenter and Jefferys 2000: 166). Even Japanese methods like Just in Time and Total Quality Management were only adopted in Europe after American corporations had embraced them. By the 1990s American IT corporations such as Apple, Hewlett-Packard, IBM and Microsoft were supplying over 80 per cent of Europe's software and computer market, and Europeans were 'increasingly working with technologies and tools originally designed for the American marketplace' (Carpenter and Jefferys 2000: 119). While this certainly demonstrated the importance of European markets for leading US corporations, it also showed Europe becoming more rather than less integrated with the US as the information technology revolution proceeded.

Economic and productivity growth in the major European countries, which had already slowed considerably relative to the US in the 1970s, lagged behind the US in the 1980s and 1990s, and European unemployment rates were persistently higher. This did not write *finis* to the European variety of capitalism, embedded as it was in the deeply entrenched corporatist arrangements of 'coordinated capitalism' throughout the postwar era. But these arrangements were now more and more attuned to competitiveness as the overriding goal. Motivated by a concern that 'business and citizens in the European Union have been slower in embracing [the] new economy than in the United States', the European Commission wanted Europe to 'become the cheapest and easiest place to do business in the world' (European Commission 2001). Thus having started with the seductive promise in the mid-1980s of a European and Monetary Union based on a 'social charter', by the time the euro was launched in 1999 it was clear that regional economic integration was, in effect, 'the antechamber to broader liberalization'. As John Grahl went on to note: 'Not only financial reforms, but also labour market and social protection policies, liberalisation and privatisation of public services, the promotion of venture capital and other such measures were all put forward in a completely uncritical attempt to mimic the growth process of the US in the late '90s' (Grahl 2004: 293).

At the end of the twentieth century the advanced capitalist countries accounted for 90 per cent of all financial assets, 65 per cent of world GDP, and almost 70 per cent of global exports of manufactured goods; not only did 85 per cent of global FDI emanate from these countries, they were also the recipients of over two-thirds of it (Kose et al. 2006; Dicken 2003: 34–42). Over half of all US FDI was located in Western Europe (up from 45 per cent in 1983) while Western Europe accounted for two-thirds of FDI in the US (WTO 2012; UNCTAD 2001; US Survey of Current Business 2012). But these statistics mask what was going on in the rest of the world. The major shift across so many developing countries to export-led manufacturing production meant that their place in global capitalism was no longer that of mere suppliers of raw materials to the advanced capitalist states. In fact, this transformation in the international division of labour involved a reconfiguration of social relations in one country after another, yielding not only new capitalist classes which became more and more linked to international capital accumulation, but also a massive expansion of the global proletariat – which in turn had a profound impact on the restructuring of production and on classes and class relations in the advanced capitalist countries.

Even in those regions where the political relationship with the American empire was to become ever more fraught there was still nothing like an economic rupture. This was all the more remarkable given that it was states in these regions who figured so prominently in the passage of the UN General Assembly's Charter of Economic Rights and Duties of States in 1974, which asserted the right to 'nationalize, expropriate or transfer ownership of foreign property'. Even if the US Treasury was well aware as early as 1975 of the need to 'discount the rhetoric', few in Washington would have been so bold as to predict that by the 1980s the expropriations would largely become a thing of the past. Having already declined from 83 in 1975 to 17 in 1979, the number of expropriations fell to one each year from 1984 to 1986 and zero for the rest of the decade (Minor 1994: 180). The question of how to fashion political and legal frameworks through which such a diverse array of states could be integrated into international capital accumulation, while sustaining order and containing economic crises in the face of the contradictions that the realization of global capitalism simultaneously gave rise, was an immense challenge. The recognition of this was seen in the World Bank's call by 1997 for transcending 'the sterile debate of state and market' and addressing the issue of 'state effectiveness' in developing the kind of public rules and institutions that 'allow markets to flourish' (World Bank 1997: 1, 25). The constitutionalizing of free trade under the rubric of the WTO, alongside the restructuring of states in the South under IMF and World Bank conditionalities as well as a host of bilateral treaties usually modelled on the United States Trade Representative's model treaty (wherein states guaranteed investor rights above all), provided the political carapace for a fundamental change in TNC relationships with the South.

The integration of developing states into global capitalism was of course extremely uneven, taking very different forms according to the nature of the state and class alignments in individual countries, and the extent to which the integration was sponsored (or occasionally blocked) by the advanced capitalist states. Throughout the debt crisis of the 1980s the US Treasury focused on ensuring that the strict lending conditionality the IMF attached to its loans required not just immediate measures of fiscal austerity but long-term structural adjustment programmes designed to protect and guarantee financial assets through the economic and political liberalization of each recipient state. This changed the dynamics of international financing. Developing state borrowers were increasingly forced to turn to international securities markets where risks could be more fully diversified and absorbed. They could no longer rely on their relationships with foreign and domestic banking syndicates and could now only attract capital if they submitted fully to the discipline of impersonal global financial markets.

The administrative and technological capacity of the TNCs to centralize the crucial functions related to control (planning, research and development, allocation of investment), while decentralizing the use of technology and selected manufacturing operations, allowed them to take advantage of local conditions such as cheaper and abundant labour supplies. This finally opened the door to significant manufacturing taking place within the developing countries, with a high proportion of them being in such technologically-advanced sectors as electronics, transportation and machinery. This did not mean, however, that global hierarchies in the division of labour did not persist. Most strategic activities (research, development, engineering and capital-intensive high valued-added production) were concentrated in the first world as were newly emerging products and processes. Moreover, as TNCs picked and chose where to go, the distribution of FDI was very highly concentrated in a few countries of the South, with some regions, especially large parts of Africa, largely left out.

FINANCE, PRODUCTION AND US HEGEMONY IN THE NEW MILLENNIUM

If one of the key features of global capitalism at the beginning of the twenty-first century was the continued centrality and even dominance of the US, there could be no mistaking that another hardly less important feature was the rapid rise of China within global capitalism. Especially in the wake of the 1997–98 Asian financial crisis and China's admission to the WTO in 2001, the East Asian economic integration initiated by

Japan four decades earlier was now increasingly reoriented around China. Yet this regional integration was still primarily directed to maintaining and expanding ultimate export markets in the US, and an unprecedented spate of bilateral trade agreements that were now made within the region also served this purpose. But the pace was now largely determined by the growth of China's exports and by related changes in production processes in other countries, all of which 'were linked and collectively shaped by broader *transnational* capitalist dynamics, in particular by the establishment and intensification of transnational corporate-controlled cross-border production networks' (Hart-Landsberg and Burkett 2006: 4). As the Asian Development Bank emphasized, 'an open, rules-based global system of trade and investment remains a high regional priority'; and since 'Asia's continued success depends on access to global markets', the main goal was to 'move faster towards global integration' (Asian Development Bank 2008: 8, 16, 23).

The largest capital outflows from the developing world took the form of far larger purchases of US Treasuries as central bank reserves than ever before. Especially in the context of the Asian crisis and the further liberalization of capital markets, these purchases served as an insurance policy against future runs on local currencies, as well as a means of maintaining exchange rates relative to the dollar. This was not simply a costly transfer of wealth from the South to the North; it was also a necessary condition of successful export-oriented capitalist development. What the emphasis on building up their reserves to insure against another run on their currency now implied, however, was that exports should significantly surpass imports. Since the requirements of neoliberal free trade meant they could no longer protect their domestic manufacturing markets from foreign imports, the concern with restraining consumer imports while accelerating export competitiveness in turn required limiting working class incomes.

By 2000, manufacturing as a portion of GDP was higher in the developing countries (23 per cent) than in the developed ones (18 per cent) (Kozul-Wright and Rayment 2004: 32; US Bureau of Labor Statistics 2012; Lett and Bannister 2009). Far from the shift of productive activity from the developed core leading to a fragmentation of production, it was part and parcel of a much greater global coordination of production through a broad range of subsidiaries, suppliers and distributors (Sturgeon et al. 2008: 297–321; Merk, this volume). Transnational corporations increasingly outsourced many operations, now purchasing from other companies much of what they had previously performed 'in house' (from accounting to janitorial services, and a great deal of production itself). Although this often led to a greater concentration of corporate power on a global scale, it also intensified competition in each sector (and indeed among divisions within each firm) as well as between nominally independent suppliers and distributors across the world, bidding for entry into global networks of integrated production. The result was a more interdependent global capitalism that required more than ever the consolidation of 'free trade' to facilitate borderless production.

Despite all the anxiety on the one hand and *Schadenfreude* on the other about the productive capacity of American capital, US corporations were able to take special advantage of the open world they had been so central to creating. The measure of this success was not the proportion of global production that took place in the US (this had clearly fallen over time as a by-product of the successful promotion of capitalist social relations abroad), but rather the *strategic* importance of American capital in the global economy. This was most obvious in key new areas of economic activity such as information technology, where a 'powerful research infrastructure' put the US 'at the forefront of major breakthroughs. . .It remains undisputed leader in software technology. US venture spending far outstrips international spending' (Cowhey and Aronson 2009: 15). To a substantial degree, the 'commanding heights' of global accumulation had shifted to these high-tech sectors, and to a range of business services (management, legal, accounting, engineering, consultancy and financial) in which American corporations overwhelmingly dominated.

As of 2007, the top three or four global firms in such diverse sectors as technological hardware and equipment, software and computers, aerospace/military, and oil equipment and services were American, as were 14 of the 16 top global firms in health care equipment and services. In global media, four of the top five corporations were American, as were two of the top three in each of the pharmaceuticals, industrial transportation, industrial equipment and fixed-line telecommunications sectors. And five of the top six corporations in the general retail sector were American. These included Wal-Mart, which used its application of computerized information systems to become one of the world's most strategically important corporations (*Financial Times* 2010). It is wrong to see these US TNCs as transnational rather than American. Not only were their controlling shareholders and headquarters located in the US, so was 70 per cent of US TNCs' global value-added, and 85 per cent of their research and development (Barefoot and Mataloni Jr 2010: 208–9). Even for the most internationalized US manufacturing TNCs – that is, those with more than 50 per cent of their sales and employment outside the US, such as General Electric, Ford, IBM and Procter & Gamble – the most significant locale by far remained the US, their foreign activities being distributed among a wide variety of countries (UNCTAD 2009: 225).

To top it all off, nine of the top ten corporations in global financial services were American, a dominance that went beyond that in any other sector. Of course, non-financial US corporations themselves were directly involved in financial markets. This was the case not only in the myriad ways they used financial markets as described above, and the proportion of profits they earned from doing so, but also in terms of the proportion of compensation paid in stock options to executives, managers and sometimes even other employees. Moreover, non-financial firms became especially involved in hedging foreign exchange and interest rate risks via the derivative markets, treating these as necessary costs, similar to expenditures on transportation and telecommunications. These developments blurred the old lines between financial and non-financial activities. Yet this should not be taken too far. For all the greater complexity of the interactions between finance and industry, they each retained their distinct characteristics.

Most US job losses stemmed not from foreign outsourcing but from the impact of the sustained increases in manufacturing productivity at home, which in the boom of the 1990s was compensated for by job creation in other sectors. The investment abroad was primarily about capturing *new* markets for manufactured products (the bulk of what US TNCs produced abroad was not exported back to supply the US domestic market). A great many American jobs were of course lost – in some cases, like textiles, entire sectors were wiped out – but to the extent that this was part of American capital's capacity to move on to new manufacturing sectors, it reflected not a hollowing out of manufacturing but a restructuring (Rowthorn 1997). Alongside the outsourcing abroad, there was often outsourcing *within* the US (e.g. auto suppliers going to the southern states or call centres established in prisons).

And while US manufacturing job losses were indeed heavy after 2001 (especially in auto and electrical appliances as well as the long-suffering textile and apparel sector), the US was still producing more manufactured goods and receiving more foreign investment before the global economic crisis that began in 2007 than all the BRICs (Brazil, Russia, India and China) combined (World Bank 2004). Rather than taking the US trade deficit as a measure of industrial decline, it is instructive to consider US exports and imports separately. The growth in the volume of US exports in the two decades up to 2007 – even as the trade deficit accumulated – averaged a very robust 6.6 per cent, leaving it only marginally behind Germany and China, the world's largest exporters; it was the relative expansion of US imports that was the source of the growing deficit (UNCTADSTAT, Statistics; OECD, International Trade Balance). It was in good part US consumer spending that maintained effective global demand into the first years of the twenty-first century.

The average annual real rate of growth of the American economy in the quarter century after the resolution of the crisis of the 1970s (i.e. from 1983 to 2007) was 3.5 per cent. This was higher than in any similar period from 1830 to 1950, and was only marginally less than during the so-called postwar 'golden age'; and, unlike then, US GDP growth in the quarter century after 1983 surpassed that of the other advanced capitalist countries (Maddison 2001). Similarly, though US manufacturing productivity growth had averaged 2.5 per cent from 1950 to 1973, well below that of the other advanced capitalist countries, between 1983 and 2007, it increased quite dramatically to 3.5 per cent, running ahead of all the other G7 economies. In terms of attractiveness as a place for capitalists to invest, the US was still, despite the wide dispersal of FDI to Europe and Asia by 2007, the largest single recipient of FDI inflows and the rate of US manufacturing productivity growth ran considerably ahead of the growth in labour compensation at home (Fleck et al. 2011). As a result, the share of after-tax corporate profits relative to US GDP earned by American corporations in 2006 was at its highest level since 1945.

Moreover, US TNCs' operations abroad consistently contributed about 30 per cent to total US profits in the new millennium, as compared with less than 20 per cent in the 1980s (Barefoot and Mataloni 2010). It was largely the failure to take sufficient account of the dominance and integration of American production and finance that led to the misreading of what US trade deficits signalled by way of undermining the value of the dollar and its place as the world currency. It was the balance of capital flows more than the balance of trade that now determined the dollar's value. The issue of US 'imbalances' that so many observers were fixated on in the first years of the new millennium failed to appreciate this central point. Far from the capital inflows signalling the dollar's weakness, and being significant mainly in offsetting US trade deficits, they highlighted the central role of US banks and TNCs in the global economy, and the extent to which the integration of the third world was dependent on the pull of both US consumer and financial markets.

US HEGEMONY IN THE FIRST GREAT ECONOMIC CRISIS OF THE TWENTY-FIRST CENTURY

Given the severity and duration of the latest crisis in a global capitalist economy that the American state had been so central to constructing, it was hardly surprising to see a resurgence of pronouncements that US hegemony was coming to an end. While the American empire is certainly not always able to control the spirits it has called up from the deep, it nevertheless remains critical to the system's survival. The continuing centrality of the American state in the global economy was in fact reinforced as the crisis unfolded, with virtually no trace of such inter-imperial conflict that a century earlier had given rise to world war. This is not to say that the problems of crisis management became any less acute, not least because the conflicts that emerged in the wake of the greatest capitalist crisis since the 1930s took shape much less as conflicts *between* capitalist states and their ruling classes as of conflicts *within* capitalist states.

The crisis that started in 2007 in the American heartland of global capitalism was not caused by either domestic under-investment in production or US trade and capital flow imbalances but rather by the volatility of finance. The crisis that erupted in the US in 2007 was not caused by a profit squeeze or collapse of investment due to general over-accumulation in the economy. In the US, in particular, profits and investments had recovered strongly since the early 1980s. Nor was it caused by a weakening of the dollar due to the recycling of China's trade surpluses, as so many had predicted. On the contrary, the enormous foreign purchases of US Treasuries had allowed a low interest rate policy to be sustained in the US after the bursting of the 'new economy' stock bubble at the beginning of the new century. While this stoked an even greater real estate bubble, after a brief downturn there was a resumption of economic growth and non-residential investment. Indeed, investment was growing significantly in the two years before the onset of the crisis, profits were at a peak, and capacity utilization in industry had just moved above the historic average.

The roots of the crisis, in fact, lay in the growing global importance of US mortgage finance, a development which could not be understood apart from the expanded state support for home ownership, a long-standing element in the integration of workers into US capitalism. Since the 1980s wages had stagnated and social programmes had been eroded, reinforcing workers' dependence on the rising value of their homes as a source of economic security. Crucially important in explaining why the financial crisis turned into such a severe economic crisis was that the collapse of housing prices also undermined workers' main source of wealth, leading to a dramatic fall in US consumer spending. The bursting of the housing bubble thus had much greater effects than had the earlier bursting of the stock market bubble at the turn of the century, and much greater implications for global capitalism in terms of the role the US played as 'consumer of last resort'.

It was also because US finance had become so integral to the functioning of global capitalism that the ultimate impact of this crisis throughout the international economy was so profound. Given the role of US financial assets and consumer spending in global capitalism, illusions that other regions might be able to avoid the crisis were quickly dispelled. But the centrality of the American state was at the same time made clearer than ever. The American state's key role in terms of global crisis management was confirmed as the 2007–08 crisis unfolded, from the US Federal Reserve directly bailing out not just American but also foreign banks and providing other central banks with much needed dollars, to the Treasury's coordination of stimulus policies with other states. The enormous demand for US Treasury bonds right through the crisis reflected the extent to which the American state continued to be regarded as the ultimate guarantor of value, and demonstrated how much the world remained on the dollar standard. Even while international tensions surfaced, what was so striking when the G20 leaders were gathered together to meet for the first time in late 2008 in Washington was the consensus on avoiding protectionist measures. The establishment of the G20 was not a matter of shifting effective decision making powers from the national to the international level, much less from the American state to an international body. The G7 had never been about this in any case, and US hegemony within it was even further enhanced by the turn of the century. But it did symbolize the growing importance, and at the same time the difficult challenge, of integrating the leading developing states into the management of the global capitalist system.

CONCLUSION: THE MEANING OF HEGEMONY

The massive growth of the global proletariat that has been the *sine qua non* of capitalist globalization produces tendencies towards the equalization of wages and conditions at a global level, and the continuing travail of trade unionism in the developed capitalist countries has partly been a reflection of this. The very financialization through which global capitalism was realized was also the means by which workers were disciplined and was closely linked to the recovery of corporate profitability – albeit a recovery characterized by new vulnerabilities, above all that so much consumption was dependent on credit. And given the political and organizational defeats working classes had suffered since the 1980s, the vast growth in inequality during the neoliberal decades was further aggravated by the way the financial crisis of 2007–08 and the subsequent great recession was addressed.

In employing the term 'hegemony' to characterize the staying power of the informal American empire, we must be careful not to imagine that this must depend on the continued prosperity of the US working class. The aspiration to achieve US standards of living was certainly an important factor in the postwar era, and even today this remains the dream of a great many of those being drawn into capitalist development. But just as the declining fortunes and prospects of US workers have more often led to fatalism or right-wing populism, let alone socialist consciousness, so the image abroad of an America where the streets are not paved with gold does not necessarily undo the powerful economic and political structures underlying the American empire's central role in global capitalism. To undo this – abroad no less than at home – will require the creation of trade unions and working class parties of a new kind, capable of putting forward alternatives to the neoliberal integration of states into global capitalism, and also capable of building the international solidarities needed to sustain new attempts to socialize capital and foster genuinely democratic economic planning in each state.