The Global Minotaur

JOSEPH HALEVI AND YANIS VAROUFAKIS

It is now common in Europe and Japan to consider the United States *the* economic model to emulate. With their economies continuing along the road of prolonged stagnation, mainstream commentators in Europe and Japan are busily seeking out the causes of their economies' malaise by comparing their micro-structures with those of the United States. Even the recent savage downturn in the United States seems unlikely to alter this trend. In Europe, just as in Japan, prestigious commentators incessantly extol America's comparative advantages: the flexibility of its labor market and its individualist (as opposed to corporatist) entrepreneurial culture (which, we are told, is deeply entrenched in the collective U.S. mind). Such narratives have become the foundation of mainstream explanations of the relative dynamism of the U.S. economy, in contrast to the unwieldy miracle economies of yesteryear.

No one, however, seems to be remotely interested in explaining why Japan and Europe have been led to such dire straits by the very features (a regulated labor market and corporatism) which used to be hailed as the hallmarks of their immense economic success in the sixties, seventies, and eighties. It is as if no one recalls how the Japanese or German success stories were scrutinized in U.S. business schools for decades, for clues to what went wrong in America. The best analysis we get on this score are a series of mutterings about how the paradigmatic shift caused by new technologies and the "new economy" has condemned the Euro-Japanese corporate model of development to the scrapheap of economic history.

So, we have two questions, first: What happened to turn Germany and Japan from success stories to, putting it impolitely, basket cases? How did the U.S. economy recover from its sluggish performance to regain its competitive edge? Our second question seems utterly unrelated: Why have Germany and France embraced the peace movement before and during the latest Gulf War?

We begin with the premise that neither of these questions can be understood in terms of the mainstream narratives of economics and politics—

Joseph Halevi (j.halevi@econ.usyd.edu.au) teaches Political Economy at the Universities of Sydney, Australia and Grenoble, France. Yanis Varoufakis (yanisv@econ.uoa.gr) teaches Political Economy at the University of Athens, Greece.

that the causes of the present situation are to be found neither in the microeconomies of the world's three leading economic zones (the United States, Europe, and Japan) nor in the sphere of political ethics and diplomacy. In the spirit of Harry Magdoff's *Imperialism: From the Colonial Age to the Present*, we suggest instead that useful insights on these important issues can only obtain when we adopt the broader political economy perspective which takes seriously the form of globalization guiding the international economy ever since the United States gained the upper hand and emerged as the dominant force within Western capitalism.

A Grand Global Design

The United States came out of the Second World War as the major and, with the exception of Switzerland, the only creditor nation. For the first time since the rise of capitalism, all of the world's trade relied on a single currency and was financed from a single epicenter. Recognizing this remarkable opportunity to achieve unhindered dominance (and to challenge the Soviet Union; a non-capitalist entity which, at the time, the best western economists thought of as a miracle-in-the-making), the United States took upon itself the role of reconstructing the capitalist world. The grandiose project soon acquired two strands.

First, American policy makers were keen to end the dollar's monopoly as the world's single convertible currency. This monopoly was undesirable because a world trade system relying on a single currency (supported by a single real economy which is only a subset of the global economy) is inherently unstable and prone to major upheavals during the unsavory parts of the business cycle. Initially, they toyed with the idea of propping up the pound sterling and using it as a potential shock absorber for the dollar zone. However, with sterling's collapse in 1947, U.S. officials gave up on this idea.

Instead, they favored, supported, and cajoled the rise of two important supporting pillars for the dollar: one in Europe (the deutschmark) and one in Japan (the yen). The architects of postwar U.S. globalism were three men: Secretary of the Navy James Forrestral, Secretary of State James Byrnes, and George Kennan. In their eyes, extending credit to Europe and Japan was to become a crucial component of U.S. policy as it would enable these two zones to buy technology and energy products, fundamentally oil, as well as to attract and utilize (often) migrant labor.

The choice of Germany and Japan seemed entirely logical. Both countries had been rendered dependable (thanks to the overwhelming presence of the U.S. military), both featured solid industrial bases (with ample human capital), and both offered considerable geostrategic benefits in relation to the Soviet Union. Britain had to experience the Suez Canal trauma (and the undermining of its colonial rule in Cyprus by the CIA) before realizing this turn in U.S. thinking. It was at that point that successive British governments began clutching at straws; namely, the "special relationship," which turned the UK into a minor executor of U.S. policy in exchange for privileged access to the U.S. market for British multinationals and the City of London.

Secondly, the creation of the two non-dollar currency zones was to be underpinned by political measures to ensure the parallel creation of free-trade areas within these zones so as to carve out crucial vital space for the real economies growing around the new currencies. This strand of the project developed quickly into what eventually became the European Union (EU) in Europe. For Japan, Mao's limited the application of this principle. Although the yen and the Japanese economy were bolstered inordinately by successive U.S. administrations, the vital space that the yen required in mainland China was effectively denied it. Instead, the wars in Korea and Vietnam surreptitiously engendered an imperfect, yet still significant, zone within which Japanese trade found space to grow for at least forty years.[1]

The postwar reconstruction of the capitalist world, once these two vital zones (Europe and Japan) were set up, was based on the ability of the United States to extend credit and finance, partly through American multinationals, particularly to Europe and to Japan (Britain was an exception for reasons alluded to above). The main function of this generous credit policy was to allow Europe and Japan to overcome what was then called the "dollar shortage"; a problem that was not eliminated until the mid-1950s.

At that point, the United States realized that it was not enough to have stabilized Europe and Japan. Having financed these two zones sufficiently for them to be able to pay for their inputs (through the Marshall Plan in Europe and war financing during the Korean conflict in the case of Japan), the United States felt the need to take action to guarantee low prices and a constant flow of energy and raw material inputs to these two zones. The loss of China, the trials and tribulations of Latin America, the liberation movements in South East Asia (against the French), the stirrings in Africa—all these developments motivated the United States to take an aggressive stance against liberation movements in the third world, identified with the threat of rising input prices.

In short, the United States took it upon itself to relegate the periphery, and the third world in toto, into the role of supplier of raw materials to Japan and Western Europe, in addition to North America itself. In the process, American multinationals in energy and other mining activities were doing good business. As for the U.S. domestic economy, there were crucial, beneficial aftereffects. During the 1960s, domestic crises were largely averted through three large public expenditure programs, two of which were closely related to U.S. global strategy: The Intercontinental Ballistic Missile program (ICBM) and the Vietnam War.[2] Both strengthened U.S. military-industrial corporations and each contributed heftily to the development of the aeronautic-computer-electronics complex (ACE); an economic powerhouse largely divorced from the rest of the U.S. economy.

Nevertheless, we shall to dare speculate that, in the U.S. officials' minds, these were merely hugely desirable *byproducts* of their *main policy*—namely, of guaranteeing energy and input supplies, at favorable prices, for the reconstruction and development of Europe and Japan. The United States did not hesitate to introduce harsh regulations that ultimately discriminated *against* American multinationals. Their top priory was not to benefit them directly. The wars in Korea and Vietnam had as their primary task the continual supply of cheap raw materials to Europe and Japan. The fact that American multinationals benefited too was a pleasant side-effect.

Interestingly, there was another byproduct, possibly one that the United States had not intended at the time, the creation, through war financing, of the vital economic space that Japan was so far lacking in the South East Asian countries and their so-called tiger economies. It is worth recalling that, without these wars, countries like Korea, Thailand, Malaysia, and Singapore would have remained utterly underdeveloped and the United States would be Japan's only market (taking into account her partial exclusion, agreed upon by Europe and the United States, from European markets).

Unintended Consequences Yield a New Design

The above thoughts lead to a reassessment of postwar U.S. dominance from the perspective of the U.S. balance of payments in relation to the rest of the world. The starting point was a large scale, and impressively ambitious, effort to overcome and to supplant the multiple conflicting imperialisms that characterized the world political economy until the Second World War. The all-encompassing destruction that the war brought to Eurasia and Japan allowed the United States to attempt that which had not been attempted before: global domination of capitalist markets.

As argued in the previous section, while seemingly in competition with the United States, the economies of Germany and Japan were aided for at least thirty-five years, sometimes through painful U.S. sacrifices. Was this a form of internationalist altruism at work? The more one considers the long-term interests of American accumulation the less credible the altruistic explanation seems. At the heart of U.S. thinking was an intense anxiety regarding the inherent instability of a single-currency, single-zone global system. Indeed, nothing concentrated the minds of 1950s U.S. policy makers like the memory of 1929 and the ensuing crisis. These same minds saw an interdependent network comprising three industrial-monetary zones, in which the dollar zone would be predominant (reflecting the centrality of American finance, and its military assurance of the flow of inputs from the third world), as the optimal design for the rest of the twentieth century and beyond.

In this sense, and if our analysis is correct, the notion that European integration sprang out of a European urge to create some bulwark against American dominance appears to be nothing more than the European Union's creation myth. Similarly, the idea that the Japanese economy grew inexorably against the interests of the United States needs serious re-examination. Economic historians agree (regardless of ideological perspective), that the United States played a central role in supporting the process of European integration and of Japanese export-oriented industrialization (despite the latter's detrimental effects on the U.S. balance of trade).

Of course, this does not mean that American policy makers were either omniscient or omnipotent. Their best-laid plans often led to disaster. But even when they did fail dismally, these failures proved rather creative, in the sense that they brought about developments neither wholly undesirable nor historically insignificant. We have already, for example, argued that the prosecution of the Vietnam War did not go according to plan. However, the silver lining, from the U.S. policy makers' perspective, is visible to anyone who has ever visited South East Asia. Thailand, Malaysia, and Singapore grew fast and in a manner that frustrated the pessimism of neo-Marxist critics of the underdevelopment school (who had predicted that no genuine development of third world countries would be possible under U.S.-led monopoly capitalism). However, there is little doubt that these industrial miracles were instigated by U.S. war spending as a consequence of the lengthy, tragic conflict in Indochina. Just as Japan's economy grew on the back of U.S. military spending during the Korean War, the tigers of South East Asia were the offspring of enormous investment, paid for from the U.S. military budget, during the Vietnam War.

Similarly, with the oil crisis of the 1970s, things did not go, as we shall argue below, the way the United States had planned. However, while developments did get out of hand, U.S. policy makers managed, nevertheless, to snatch an important array of victories from the jaws of catastrophe. To tell this story properly, we need to start again, at the Vietnam War. The military spending that was responsible for the development of South East Asia into a type of later-day Japanese vital zone was also the reason for America's gigantic balance of payments deficit; a deficit that, besides its local effects in South East Asia, provided much of the expansionary boost that brought the prolonged postwar boom (starting with the Korean War).

As we all know, this balance of payments deficit grew beyond any sustainable level, reflecting the extent to which the Vietnam War was confounding the U.S. military's best efforts. With the dollar under inordinate pressure, President Richard Nixon was forced to give up on the stable parity of the dollar to gold, as had been determined in the Bretton Woods agreement. Although U.S. policy makers always felt that the United States could afford, as long as it retained its political dominance within the "free world," a sizeable balance of payments deficit, the war in Vietnam had taken it deeply into the red. The unexpected successes of Ho Chi Minh might have unintentionally been the cause of the industrialization of South East Asia (courtesy of United States war financing). However, the alarms were ringing furiously in Washington; especially in the Treasury Department and the Federal Reserve. From the late sixties onwards, the best and brightest U.S. policy makers sought ways and means to address America's balance of payments problem.

As the financial position of the United States was deteriorating, the continuing growth of the two other main capitalist centers (Europe and Japan), while part of the U.S. plan, began to lose its appeal in Washington. The American quagmire in Indochina was giving rise to two antagonistic effects. On the one hand it was generating the quantitative conditions for global growth but, on the other hand, it was creating acute rivalries between the United States and its two major protégés in the context of the U.S. balance of payments deficit and the ensuing pressure on the dollar.

In his 1982 memoir, *Years of Upheaval*, Henry Kissinger said categorically that the push to increase oil prices came from the United States. It is now well accepted that Kissinger's memoirs impart quite accurately the manner in which U.S. decision makers seized upon the OPEC-imposed embargo to push for a sharp increase in oil prices, well beyond what OPEC planned. The aim was to redress the balance of payments situation between the three major zones: the United States, Europe, and Japan. The basic assumption here was that, in the estimation of the U.S. authorities, both Japan and Western Europe would find it much harder than the

United States to deal with a significant increase in oil prices.

As it turned out, this policy backfired. In the same way that Washington had underestimated in the sixties the resolve of the Viet Cong, in the seventies they underestimated the chain reaction that their meddling in oil prices would cause within the fledgling OPEC and against the background of the tensions that the Israel-Palestinian conflict had only recently brought to the region. Yet again, however, the United States managed to extract advantages out of a major self-made crisis. To be precise, the United States succeeded in reducing its balance of payments deficit. Indeed, by the end of the seventies, it had been eliminated almost fully. How did the immense hike in oil prices do this?

Note that during the 1970s, and while the U.S. balance of payments was improving, the balance of trade remained deeply in the red. However, the situation with the balance of payments was being reversed as a result of a massive strengthening of the U.S. international financial position. In short, the United States managed to attract capital from the rest of the world as the latter was sinking inexorably into stagflation. As international capital was seeking refuge in the United States, the latter could afford not only to continue with a balance of trade in deficit but, in fact, to allow its trade balance to deteriorate further.

A second silver lining, for the United States, following the uncontrollable rise in oil prices in the 1970s, was the massive rise in interest rates spearheaded by spiraling inflation. As central banks struggled to keep the lid on prices, interest rates went through the roof. Setting aside, for the moment, the world-wide, overwhelming recessionary effects of this development, the rise of interest rates world wide were *more effective in destroying the enemies of U.S. foreign policy around the globe than any military operation the United States could ever imagine*. Arguably, the chain of events that led to the implosion of communism in Poland and Yugoslavia began in the seventies with the sharp rise in interest rates soon after these countries had accepted offers of substantial loans from Western financial institutions. Similarly, with third world countries, where national liberation movements had gained power despite the best efforts of the United States, and had borrowed on the international market for the purpose of underwriting much needed new infrastructure. These economies were to be plunged in a crippling debt crisis following the rise of interest rates from 3 to 30 percent in a few, short years. In fact, they have never quite recovered since.

As with the rising oil prices, similarly with the bourgeoning interest rates: the U.S. economy (although hit hard by the recession brought on by the rising prices of oil and money) improved its *relative* financial position, compared not only Europe and Japan but also the third world and the Communist nations. By the early 1980s, under the Reagan administration, U.S. policy fully endorsed this new reality and a consensus emerged that the balance of payments ought not to be the focus of attention anymore; that what mattered was the strength of U.S. finance, founded upon the strength of its multinationals, particularly in the energy sector, and on the ability to make the dollar accepted internationally (without any form of concrete payment behind it).

In simpler, albeit more emotive, terms, the new era that began in the early 1980s is marked by the transformation of the world economy into a periphery from which the United States imports huge quantities of goods with little concern for its balance of payments. Of course, this periphery is no homogeneous magma. It is, rather, a well-structured realm, complete with two powerful currency zones (euro-land and Japan-South East Asia), which U.S. policy makers alternately bolster or undercut, in response to their assessment of the situation and, naturally, their evolving overarching objectives.

Basically, the United States pays for its deficit (to the rest of the world) by issuing bonds and treasury bills or by attracting capital through its stock exchanges. This is the way in which the traditional concern (of what to do with the deficit) was dealt with. Low U.S. inflation is pivotal to this strategy. For unless it is kept at close to 1 or 2 percent the capacity of the U.S. economy to attract capital would be undermined. (This is because, if there is relatively high inflation, the asset values and financial assets purchased by incoming capital will decline in value.) So, from the early 1980s onwards, the main game in Washington was how to reinforce U.S. financial capital through the creation of a highly deflationary international environment.

By extension, the rest of the world supplies the United States with commodities at noninflationary prices and, meanwhile, the United States (unlike every other country, including Europe and Japan) does not have to deal with its deficit. This is very similar to the situation that Britain established in relation to India. From the end of the nineteenth century until the Great War, Britain ran a huge balance of payments deficit. The way it managed to maintain it was by having India export to the rest of the world and by taxing away, in one way or another, the surplus that India generated through its exports. These capital flows and taxes made it back to the City of London thus clearing the deficit. This is the model that the United States has been emulating in the last twenty years. Instead, however, of using this policy with a single country (as Britain had done), they applied it to the rest of the world (especially so after the collapse of the Soviet Union and its satellites).

A brief perusal of the Federal Reserve's research papers over the past ten years would easily convince the reader that the U.S. authorities see the greenback as a *strategic asset*. The drive to dollarize whole foreign economies, especially in Latin America, is to be understood as part of the same mindset. Dollarization means that the U.S. dollar becomes the country's *de facto* local currency. The main effect, from the U.S. perspective, of this move is that the demand for dollars then depends not only on the international transactions of other countries but on the domestic transactions of the dollarized economies as well. This gives the United States added political leverage and reduces further the preoccupation with external debt. The reason is simple: as dollars are now being increasingly demanded by foreigners for their own domestic purposes, the U.S. balance of payments plays a decreasing role in shaping the dollar's value in the international money markets.

To recap, the Vietnam War put a great deal of strain on the model of world dominance that the United States had been utilizing since 1947. As the cost of waging carnage in Indochina was exceeding its planned levels by a huge margin, the capacity (and willingness) of the United States to finance, while controlling, its two creations (the yen and the deutschmark zones) began to slip. The balance of payments problem intrinsic to this model demanded a new solution; one that involved a redistribution of finance capital *away* from the yen and deutschmark zones and back towards the Anglo-Celtic nexus. Of course, the shift could not be too sudden since the greenback's two pillars (the Japanese and the European economies) remained, and still are, essential to the United States for their shock-absorbing and effective-demand-enhancing qualities.

Continuing with our review, U.S. officials understood well that the only way in which the United States could avoid deflation in order to adjust its external balance was by compelling the rest of the world to keep financing the U.S. deficit. Such redistribution of finance capital resembled London's strategy for maintaining in perpetuity a large balance of trade deficit with India. The simple implication of this is that the United States imposed on the rest of the world the role that India played within the British Empire. Tragically, there was a snag. Unlike India, which could export to the rest of the world, and thus generate the balance of trade surplus which the British would subsequently plunder, the rest of the world cannot export to the rest of the world! It is faced with global excess capacity and a problem of markets.

Geopolitics of the New Design

The capacity of the United States to pursue its post-Vietnam global design depends on its capacity to maintain a steady flow of capital from the rest of the world. This capacity in turn hinges crucially on its political dominance over the rest of the world. Two analysts foreshadowed this when they wrote in 1986, "even as military assistance and arms sales rocketed upward in the 1970s, many American business figures pressed for an enhanced American capacity for direct intervention abroad" (Thomas Ferguson and Joel Rogers, *Right Turn*).

Anyone who read Bush administration advisor Richard Perle's 1997 report to Israel's then Prime Minister-elect B. Netanyahu, "A Clean Break: A New Strategy for Securing the Realm," will immediately recognize the author's emphasis on the nexus between geostrategic concerns and the imperative to secure privileged access to oil (www.israeleconomy.org/strat1.htm). Even if the United States did not need a monopoly over Middle-Eastern and Central Asian oil for itself, it would wish to control it in order to guarantee its financial centers a steady flow of petrodollars.

In an ironic sense, the latest war in Iraq might not about the oil *per se*. It is about ensuring that whoever controls it, buys and sells it in U.S. dollars through the New York commodities exchange.[3] For it is this flow of finance, and to a much lesser extent the ownership of oil, which enables the United States to continue its policy of world dominance through an unbounded balance of payments. (Of course the fact that the oil would be taken over in the post-Saddam era by Bush and his Texan friends does not reduce the administration's enthusiasm.)

In November 2000, Richard Haass, the current director of policy planning in the State Department, strengthened our argument by writing an essay advocating that the United States adopt an "imperial" foreign policy. He defined the latter as "a foreign policy that attempts to organize the world along certain principles affecting relations between states and conditions within them." This would not be achieved through colonies but through what he termed "informal control" which would require military might (if necessary). Global mechanisms such as international financial markets, the WTO, and the IMF were earmarked as essential devices for ensuring the dominance of U.S. interests, with the military iron fist backing up the invisible hand of the market (Richard Haass, www.brook.edu).

To give an additional example of the nexus between military dominance and the economic comparative advantage of the United States, it is useful to recount the testimony given to a Congressional hearing on Afghanistan in 1998 by John Maresca, vice president of oil giant UNOCAL (www.house.gov/international_relations/105th/ap/wsap212982.htm). In a cheerful prophesy of the 2001 war in Afghanistan, Maresca outlined a rationale for a U.S. invasion of Afghanistan and a future takeover of Central Asia's natural resources. His argument turned on Chinese economic development which has to be, in his view, both abetted and controlled (just like Europe's and Japan's economic development was after the Second World War, we might add).

Maresca implied that, unlike Japan and Europe, China will not willingly liberalize its capital account and, therefore, the flow of capital from China to the United States will be impeded. In simpler words, profits by Chinese, Japanese, European and, of course, U.S. companies operating in China will not be readily transferable to the United States, Maresca lamented. Even though Maresca did not spell it out, he was hinting strongly that China's refusal to allow for free capital movements to the United States was certain to impede the process of financing the U.S. deficit from the emerging giant. The best way to overcome China's recalcitrance, Maresca explained, would be to monopolize the supply of energy *in its vicinity*. It does not take much genius to see that if China's energy supplies are indeed successfully circumscribed, and placed under the control of U.S. companies, it would be easier for the United States, via the WTO and IMF, to force China's hand and earn concessions permitting China-generated capital to flow to New York.

Moving, for a moment, beyond wars and oil, President Bush's first salvo against an earlier global consensus concerned the Kyoto Protocol. The connection between U.S. policies on energy and the environment is evident but it would be a mistake to think that it is merely a matter of pursuing the interests of U.S. financial and energy corporations. The anti-green streak of the current administration runs deeper and is related to broader U.S. objectives.[4] In recent years, after stubborn resistance to the idea that the greenhouse effect is real, the administration finally accepted the evident truth: the climate is changing as a result of the greenhouse effect. However, instead of rejoicing, environmentalists were incensed. Why?

The reason is that the said acknowledgment was not accompanied by a sense of urgency regarding the need to reverse the effect of global warming. Indeed, the opposite happened. For the last year or so, circles in Washington have been promoting the view that global warming might be bad for most parts of the world *but not necessarily bad for the United States*. There is, indeed, speculation that U.S. agribusiness will *benefit* from an increase in global temperatures because, according to estimates based on large scale computerized simulations, the productivity of American agriculture will rise *as long as genetically modified seeds are utilized extensively*. Meanwhile, with a declining world food production, U.S. "comparative advantage" is predicted to strengthen. Once more, the United States appears to the rest of the world as completely obsessed with the project of remaining unimpeded by its balance of trade deficit; even at the planet's expense.

In summary, the New Design seems to revolve around the axis of control over energy sources, as well as environmental change, with an explicit view to enhancing the U.S. capacity to draw capital flows from the rest of the world and thus avoid domestic crises due to the growing indebtedness of U.S. families and businesses. If this requires global military campaigns and the alienation of world opinion on matters of global importance (e.g., the environment, world peace), this is deemed a small price to pay for a huge and steady windfall.

Political Repercussions of the New Design

Many of us wondered why George W. Bush's infantile *State of the Nation* 2003 speech sparked off a standing ovation even by Democrats oppose to him. The conventional wisdom is that this is the done thing and American patriotism is a funny creature that allows a Democrat to look at George W. Bush and see, not an inane opponent, but rather the president of the United States. Be that as it may, this cultural idiosyncrasy cannot extend to the manner in which foes of the Texan oil brigade have kept such an eerie silence. Although the majority of U.S. senators have no direct financial interest in the Great Iraqi Oil Robbery, they all feel quite strongly about preserving the flow of foreign capital through the centers of American finance. Perhaps, from their perspective, the Butcher of Baghdad's worst crime was to nominate, back in 1998, the euro as the currency in which Iraqi oil is to be traded!

Of course, the fact that the U.S. political establishment seems to fall into line behind the New Design does not mean that the benefits from the latter are distributed evenly among the American people. Indeed, if we look closely, the U.S. economy is highly segregated between a sector connected to the aeronautic-computer-electronics (ACE) military-industrial complex and the rest of the U.S. economy; a division which is apparently increasing fast. Interestingly, although the comparative productivity and competitiveness of the ACE-linked sector vis-à-vis the European and Japanese economies is rising, the rest of the U.S. economy is falling behind (relatively, again, to Europe and Japan). Moreover, the former is severing its links with the latter, thus enhancing the inequality between jobs, incomes, and opportunities between the two Americas: the one connected to ACE, thus prospering, and the one that is not.

Put simply, the latest U.S. economic miracle has nothing to do with the flexibility of its labor markets and the entrepreneurship of the average American; it is simply a direct product of industries that grew out of its global geostrategic hegemony. Who are the pillars and, at the same time, the beneficiaries of this strategy? One thing we know for sure is that the beneficiaries are not the average Americans. In fact, never before have so few Americans had so much while the many had to survive on relatively so little. No, the beneficiaries are three sectors of the U.S. economy: energy multinationals (mostly oil companies), the financial institutions handling the capital flows from the rest of the world, and the ACE industries hooked into the U.S. military. As for the rest of the U.S. domestic economy, and the rest of the world, they are in a state of permanent crisis.

The question is: How have U.S. policy makers managed to maintain political control over this global design? Starting with Japan, we must not forget that the United States recreated, on the ashes of Imperial Japan, a nation with a political apparatus which was entirely new to the country. The loose two-party state imposed by the United States, and effectively written into Japan's constitution, had been designed to prevent any significant influence of politicians on policy. The Japanese bureaucracy is powerful, largely efficient, and autonomous. Thus the people of Japan have become the last Japanese colony, ruled over by a class of governmental entrepreneurs whose political ambitions are nonexistent. While this model provides stability and conformity and is conducive to speedy economic development at times when demand from the United States is high, it is utterly incapable of instigating change, of giving voice to the political aspirations of the Japanese masses, and even of mapping out an autonomous Japanese trade or finance policy.

To give two examples, the United States had ensured that, following the rise of South East Asian tigers, Japan would be selling Korea, Malaysia, and Thailand technological or capital goods (usually through the transfer of superseded production lines). Interestingly, most regional trade was bilateral (as opposed to trilateral): South East Asia was trading directly with the United States and so was Japan. By contrast, the flow of final goods between South East Asia and Japan was minuscule. In other words, the

United States (either willingly or unwillingly) prevented Japan from establishing an economic zone around it similar to that enjoyed by Germany in euro-land.

When, following the 1997 crises, Japanese officials realized the benefits lost due to their failure properly to integrate South East Asia into the Japanese economy, they tried to make amends. Alas, the United States denied Japan the instruments as well as the opportunities to alter the situation substantially.[5] The world economy (excluding the United States) being in permanent deflation, Japanese factories have no means of making use of their huge capacity and thus the Japanese economy finds it impossible to transcend a state of perpetual recession.

This makes Japan even more dependent on exporting to the United States. U.S. officials allow Japanese firms access to American consumers but at a hefty price: Japan must forego any plans of becoming a foreign capital importer (in competition with the United States). In practical terms, it is forbidden from developing its own international financial policy or from establishing new international bodies for the minimization of financial volatility—especially in South East Asia. It is therefore wholly unsurprising that Japanese politicians dare not speak out against U.S. policy at any significant level.

Of the two zones created by U.S fiat in 1947–1955, Europe (that is, mainly the Franco-German axis) had a great deal more integrity than Japan, since its industrial capital base was integrated early on (via the Common Agricultural Policy and other EEC, now EU, funding mechanisms) with nonindustrial sectors which, though low in productivity, could (and did) become sources of demand for European industrial goods. Over the period 1947–1995, the United States made (what seemed to be) significant economic sacrifices in order to promote initially the deutschmark and later economic and monetary union. Whenever the German currency showed signs of weakness (as in the fifties and sixties) the United States bought deutschmarks in solidarity with the Bundesbank. And when the deutschmark appreciated too much, they helped bring it down in solidarity with German industry, even if doing so harmed American companies.

On the political front, the expansionist agenda of the European Economic Community (EEC)—to engulf Greece, Spain, and Portugal in the early eighties—was aided and abetted by the United States via NATO. So, a reasonable observer would surmise that the United States had been more than friendly toward the "European Project." Cynics might add, not without justification, that European unity was indeed an American project; that America thought of European unity, and worked diligently toward it, long before the Europeans themselves took it to heart. In this viewpoint, the idea that the EU was set up in competition against the United States appears absurd and is best explained as the Europeans' *ex post* rationalization.

Regardless of our degree of cynicism, however, it would take much naiveté to imagine that U.S. ambitions for Europe involved a *political* union of the type that might spawn an autonomous political program; one that suited Europe independently of global plans for the maintenance of American sovereignty over world finance capital. General De Gaulle understood this well, as he understood that the very constitution of the EEC was not automatically going to engender a European political force. Having also grasped the role of Britain in all this (an economy that the Americans never intended to bond to the deutschmark zone, or euro-land, but one which they attached directly to the their own dollar zone through the City of London), De Gaulle both exited NATO's military wing and tried, unsuccessfully, to block the UK's entry into the EEC.

More recently, U.S. conduct in Yugoslavia, Chechnya, and now Iraq demonstrates the method by which U.S. policy makers have mixed their support for a European economic sphere of unified trade and capital mobility with a weak political infrastructure in its support. Remarkably, the U.S. plan, circa 1947, of carving out a European trade zone with a single currency, but no political union, is alive and well. The current U.S. push for extending the EU's borders to the Urals and northern Iraq is highly consistent with a remarkably farsighted plan.

Conclusion

European policy makers in Brussels, and their Japanese counterparts in Tokyo, waste countless trees writing and distributing research papers on entrepreneurship and competitiveness, desperately seeking ways of playing catch up with the United States. The most recent such literature from Brussels seems to trade on the assumption that the reasons why the U.S. economy is more energetic than those of Europe and Japan has to do with the superiority of the Protestant Ethic, the debilitating effects on incentives caused by over-generous safety nets, and overly regulated labor markets. The problem with this assumption is that it is at odds with any logically coherent analysis of the global political economy. Europe and Japan *always* regulated the supply of labor (either institutionally or conventionally) more stringently than the United States. And yet for thirty years the European and Japanese economies (especially Germany) were outstripping that of the United States. Why have things changed?

Conventional wisdom has it that the new economy caused what people in the know refer to as a paradigmatic shift; namely, that capitalism has moved up a gear and Europe's (and Japan's) old ways (with job security and worker's rights) cannot survive in our brave new order. As is so often the case, conventional wisdom's track record at explaining historical shifts is poor. Suppose for a moment that the United States is indeed steaming ahead on the strength of information and computer technologies, fuelled by the spirit of American free enterprise and unencumbered by worker-friendly labor laws. If this were so, it should be the case that the American economy is more dynamic, inventive and innovative *across all sectors involving* information and computer technologies (compared to their Japanese and European counterparts). But, they are not!

The only sectors in which the Americans have overtaken the Europeans and Japanese are those which are intimately linked to the U.S. defense budget—a whopping powerhouse that makes European alleged statism seem like a children's fancy dress party. And yet, Eurocrats and Japanese officials alike make the profound mistake of relying on small picture comparisons which miss out the big picture. They observe, for instance, that more small firms in the United States (relatively to Europe and Japan) have a greater propensity to grow into medium sized ones. And from this observation they conclude (without further explanation) that there must be something about American small business that boosts their growth rate. Then they look closer but do not find the missing ingredient.

Exhausted, they conclude that the reason must be in the heads of American entrepreneurs; that it must have something to do with the greater fear of remaining uninsured in a rich country were millions have access to no proper medical care. And, regrettably, they recommend that perhaps what the Europeans and the Japanese need is a little tough medicine—fewer workers' rights, less social benefits, fewer vacations and, generally, a life more brutal, nasty and short (in the hope that desperation will stir up waves of entrepreneurship).

What they fail to see, even though it keeps staring them in the face, is that the United States is not only the land of many small businesses but also the land of the world's largest and most numerous multinational conglomerates. That U.S. growth in the 1990s was financed by borrowing; so much borrowing from overseas that in the last few years, if all Americans were to sell everything they own, they could still not repay their loans. The question, of course, is why foreigners continue to lend them, at relatively low interest rates, and without the dollar suffering massive falls? The Panglossian storyline is that foreigners continue to pump money in the U.S.

economy because it is so productive. Unfortunately, this is a tautological answer and as such adds nothing to the debate.

Meanwhile, we have been claiming in this article, the real reasons for the renewed U.S. dominance lie elsewhere and have nothing to do with the micro picture. In short, excepting the United States, the rest of the world has been placed strategically (by U.S. policy makers) in a state of permanent deflation. Permanent deflation means high unemployment for the rest of the world independently of how flexible or inflexible labor markets might be or how entrepreneurial the various peoples are. Europe and Japan have been caught up in the wake of the flow of capital to the United States and are struggling for effective demand. Thus the statistical evidence of relatively less-than-dynamic small business sectors across Europe is the effect, rather than the cause, of the relative dominance of the U.S. economy.

There is, we have argued, a great point of difference between the types of dominance that the United States exercised *before* and *after* the 1970s so-called oil crises. In the first phase (1947–1979), U.S. efforts to dominate centered upon building up Japan and Europe and fighting regional wars in order to maintain the supply of cheap inputs to the United States and, perhaps more importantly, to these two zones. The resulting U.S. balance of payments deficit boosted these economies further and this, to a large extent, explains why there was no political power in either zone that ever contested American authority (even though some had good cause to quarrel with U.S. administrations whether for ideological reasons, as in the case of the German Social Democratic Party under Willy Brandt, or for historical ones, as for example, the ultranationalists in the Japanese Liberal Democratic Party).

However, in its second phase the United States adopted a change of design. This New Design required that the rest of the world be in a persistently deflationary state, continually validating U.S. IOUs and, in so doing, protecting the U.S. financial system from a crisis of domestic debt brought about by the unprecedented levels of household and corporate net debt. All of this returns us to the second query with which we opened this paper.

Why have the Germans and the French taken to the high moral ground regarding the war on Iraq? Surely it is not because war is wrong or that the UN must be consulted. These reasons made neither Paris nor Berlin hesitant when it came to bombing Yugoslavia in 1999, or from consenting to U.S. invasions in Panama, Grenada, or the brutal terrorism exercised against Nicaragua. The reader will allow us to conclude with an admittedly speculative answer.

Suppose our analysis so far is right in that the latest U.S. economic miracle is financed through capital flows from Europe (and the rest of the world). Suppose that it is true that the reason Europe has been stagnating for two decades is the U.S. capacity to impose upon Europeans, by geopolitical means, this type of economic misery. Lastly, suppose that, unlike EU bureaucrats, French and German leaders understand the causes of Europe's malaise. Now, if all this is true, how should we expect them to interpret the following two announcements of President Bush? First, that he will go to war against an already impoverished people, which will result in U.S. companies gaining exclusive access to the world's second largest oil fields. Secondly, that he intends to grant gigantic tax cuts to the richest of his fellow Americans while at the same time boosting government spending (primarily through the defense budget).

Under the premises above, there is only one possible conclusion that the leaders of "old Europe" must come to: The rest of the world (of which continental Europe bears the highest burden) must speed up the rate at which it finances the U.S. deficit. This is tantamount to an acceleration of Europe's deflationary spiral. When these thoughts are combined with the observation that the Bush administration seems uninterested in forging a broad understanding with America's European allies on a wide range of issues (ranging from the Kyoto Protocol to steel tariffs, genetically modified crops, and the International Court of Human Right) it is not difficult to see why some European leaders may have objected. To kill strangers in pursuit of a common objective is one thing; but to consent to such brutality as part of a Grand Design from which one will only lose, is quite another.

We believe that the current quarrels between the Bush administration and the Franco-German axis might be a precursor of things to come along these lines of analysis. Unless the U.S. administration finds some *modus vivendi* with continental Europe's elites (one which allows the latter to maintain a capacity to reproduce themselves at a sustainable rate), then not only will the U.S. military find itself without allies in the battlefield (except perhaps some remnants of the British Empire) but, also, the whole edifice of American global hegemony will totter precariously on the edge of a terrible abyss. We say this because an active U.S. interest in preventing crises of accumulation in Europe and Japan has always underpinned the capacity of these economic zones to continue financing the U.S. deficit. In short, the Bush administration's unilateralism may prove a long-term disaster for U.S. capitalism.

It is now of great historical importance whether U.S. officials will show signs of understanding once again the importance of supporting, like they once did, capital accumulation in Europe and Asia. Since the Reagan era, no such appreciation has been demonstrated. The real driving force behind U.S. policy has been the voracious appetite of the U.S. economy for foreign capital; a latter day Minotaur single-mindedly concerned with its nourishment. "Old Europe" accepted the role of feeder in the eighties while the Soviet threat was imminent or, in the nineties, while Clinton was making pleasant noises about inclusive global governance. They now feel that not only is there nothing in it for them but that, in addition, the new Minotaur is too greedy for its own good.

To end on a lighthearted note, one hopes that EU leaders have realized by now how much merriment they must have caused in America's corridors of power when they pronounced, three years ago in their Lisbon EU summit that they intended to turn the EU into the world's "most competitive economy by the year 2010." Against the panoply of America's economic, political, and military Global Design, EU leaders were proposing to pit microeconomic reform! U.S. officials must have been shaking in their boots!

Notes

1. For example, when Japan applied to join the Organization for Economic Co-operation and Development in 1964, Washington signed a dozen trilateral treaties allowing European countries greater access to U.S. markets—provided they waived the right to use GATT's clause thirty-five against Japan.
2. The third was Lyndon Johnson's Great Society project.
3. Perhaps Saddam Hussein understood this well when some years ago he performed the cardinal sin of determining that Iraqi oil is denominated in euros, rather than U.S. dollars.
4. The U.S. oil industry in association with U.S. auto-makers are, indeed, investigating clean-technologies. Cynics would say that the research is carried out with a view to delaying the introduction of hydrogen cars and hybrids as much as possible. Nonetheless, the fact that the research is carried out is good news. The burning question is: How will the new technologies, once patented, be disseminated across the globe. We are, for instance, sceptical about the prospect that they will be licensed cheaply were they are most needed; namely, in parts of the world were car ownership is rising in leaps and bounds (e.g. China).
5. J. Halevi and B. Lucarelli write: "No systematic synergies exist any longer between Japan and its area of influence. In this respect Japan and East Asia constitute the most vulnerable point of the international political economy of U.S. imperialism. On one hand, this area is fully tied to the American economy; on the other hand, it contains two countries of world importance: Japan, as a productive core, and the People's Republic of China. The external surpluses of these two countries and of Taiwan represent a major part of the U.S. deficit. Thus the surpluses must be channelled to the financing of the international position of the United States. By the same token the two trillion dollar savings in Japan's deposits must be opened up to the hedge funds and other institutions mainly operating from, or in conjunction with, Wall Street" ("Japan's Stagnationist Crisis" *Monthly Review*, February 2002).